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 – Tier 2 for-profit reporting framework review**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Through:	Nimash Bhikha; Michelle Lombaard
☒ **Action Required**	☐ **For Information Purposes Only**

Purpose

1. This paper assesses the current Tier 2 for-profit reporting framework as part of the Accounting Standards Framework (**ASF**) review. It focuses on entities required to apply Tier 2 reporting requirements.

2. This paper considers how the current Tier 2 for-profit reporting framework operates and compares it with selected alternative reporting framework options. It identifies key differences, trade-offs and practical implications for mandated Tier 2 for-profit entities and assesses whether the current framework remains suitable for this population against the objectives of the ASF.

3. The analysis applies the broader ASF review methodology to the Tier 2 for-profit population and should be read alongside the For-profit sector overview paper, which addresses matters relevant across both Tier 1 and Tier 2 for-profit entities.

Recommendations

4. We recommend the Board:

   (a) **NOTE** the analysis of the current Tier 2 for-profit reporting framework;

   (b) **NOTE** the key differences, trade-offs and practical implications of the reporting framework options considered;

   (c) Provide **FEEDBACK** on whether the analysis appropriately reflects the characteristics, reporting needs and public accountability considerations relevant to Tier 2 for-profit entities to inform the next stage of the ASF review and public discussion paper; and

   (d) Provide **FEEDBACK** on the proposed information and questions for stakeholders to be included in the public discussion paper on this topic (outlined in blue text).

Scope of this paper

5. This paper focuses on Tier 2 for-profit entities that are required to apply the Tier 2 reporting requirements under the ASF.

6. Unless otherwise stated, references in this paper to **Tier 2** mean Tier 2 for-profit entities that are required to prepare generally accepted accounting practice (**GAAP**)-compliant financial statements by legislation.

7. This paper does not consider broader questions relating to legislative reporting thresholds or the criteria used to allocate entities to tiers. If stakeholder feedback from this review indicates concerns about which entities are required to prepare GAAP-compliant financial statements, or about the legislative thresholds used to determine reporting obligations, that feedback will be provided to other parties (MBIE) for their consideration on the relevant legislative policy settings. Considerations relating to entities that voluntarily opt in to apply Tier 2 reporting requirements are also addressed separately in the Entities that voluntarily apply Tier 2 reporting requirements paper.

8. This paper assesses reporting framework options and their suitability for mandated Tier 2 for-profit entities. It does not assess detailed amendments to individual accounting standards or propose changes to specific recognition, measurement, presentation or disclosure requirements. Any such changes would be considered separately and would be subject to public consultation before the NZASB considered amendments to the existing framework.

Relationship with the for-profit overview paper

9. This paper should be read together with the For-profit sector overview paper, which provides the common context for the for-profit reporting framework, including the development of the current framework, the legislative pathway, International Financial Reporting Standards (**IFRS**) convergence, jurisdiction-specific wording and licensing arrangements, the common assessment criteria, and cross-cutting matters relevant to for-profit entities.

10. This Tier 2 paper does not repeat that common context. Instead, it applies that context to the mandated Tier 2 for-profit population. For this assessment, the relevant starting point is the current Tier 2 for-profit reporting framework in New Zealand and the established IFRS-based approach for entities with no public accountability and, those that are not large for-profit public sector entities.

Content

Background and context for Tier 2 entities

Current tier 2 for-profit reporting framework

11. The current tiered ASF moved away from the previous sector-neutral approach by establishing separate for-profit and public benefit entity (**PBE**) reporting frameworks, while retaining an IFRS-based framework for Tier 2 for-profit entities.

12. Under the current ASF, Tier 2 for-profit entities apply New Zealand International Financial Reporting Standards with reduced disclosure requirements **(NZ IFRS RDR)**, including full recognition, measurement and presentation requirements, but with reduced disclosure requirements as specified by the External Reporting Board (**XRB**).

13. As a result, Tier 2 for-profit entities generally report the same accounting outcomes as Tier 1 for-profit entities, with differences primarily relating to the volume and detail of disclosures within the financial statements.

Role of Tier 2 for-profits within the ASF

14. Within the ASF, Tier 2 is the proportionate reporting tier for for-profit entities that do not have public accountability and are not large for-profit public sector entities. Its role is to provide a framework for entities where the absence of public accountability supports the application of reduced reporting requirements, while still maintaining a basis for credible, comparable and useful general purpose financial reporting, given these entities are still economically significant to the NZ financial reporting ecosystem.

15. For non-publicly accountable entities, comparable and useful information may assist lenders, owners, parent entities, regulators and other users in making informed decisions, including lending, stewardship, compliance, group reporting and other resource allocation decisions. The general-purpose financial statements for these entities are written for this range of users.

16. This background context is relevant because the current Tier 2 assessment starts from an established NZ IFRS-aligned framework that retains NZ IFRS recognition and measurement requirements while providing reduced disclosures, rather than a separate simplified recognition and measurement framework developed independently from international standards.

How the Tier 2 for-profit framework was developed

17. The current Tier 2 for-profit reporting framework was established in 2015 as part of New Zealand's move from differential reporting to a tiered approach for entities required to prepare GAAP-compliant financial statements. For Tier 2 for-profit entities, this involved developing a proportionate reporting tier that retained NZ IFRS recognition and measurement requirements, with reporting relief provided mainly through reduced disclosures.

18. This history is relevant as the current design of the Tier 2 reporting framework provides the starting point for considering whether the current framework remains suitable for the Tier 2 reporting entities.

Why the Tier 2 framework is being reviewed now

19. The Tier 2 for-profit framework review is being considered as part of the broader ASF review to test whether the Tier 2 for-profit framework continues to meet the objectives of the ASF for entities that are legally required to apply it. The review does not start from an assumption that the current framework should change.

20. Since the Tier 2 framework was established in 2015, the reporting environment for Tier 2 entities has continued to evolve. Relevant developments include:

    - Growth in the size, scale and complexity of some entities required to report under Tier 2, including entities with external financing, cross-border operations or more complex transactions;
    - Increasing prevalence or significance of Tier 2 entities operating within wider corporate groups, including groups with Tier 1 parents or overseas ownership, where comparability, consolidation and group reporting may be relevant;
    - New and amended IFRS Accounting Standards, including significant changes and growing complexities in areas such as financial instruments, revenue, leases and insurance contracts, where those changes are developed primarily for entities with public accountability; and
    - Recent international proportionality mechanisms, including IFRS 19 and revisions to IFRS for SMEs, and different jurisdictional approaches to reporting by entities without public accountability.

21. For the Tier 2 entities, the relevant matters considered in this paper include diversity of the Tier 2 population, the available evidence based and population visibility limitations, the cost and complexity of applying full NZ IFRS recognition and measurement requirements, the extent to which disclosure-only relief remains proportionate, group reporting and movement between tiers, international and trans-Tasman comparability, and whether the framework remains operable within New Zealand's reporting ecosystem.

Matters identified through previous review work and stakeholder engagement

22. Previous review work, including the 2019 post-implementation review of the ASF and the targeted ASF review, provides relevant context for considering the Tier 2 for-profit framework.

23. That work indicated that the current Tier 2 for-profit framework is generally workable for many entities required to apply it. It also identified matters for further testing from a Tier 2 perspective, including the practical effect of ongoing changes to full NZ IFRS recognition and measurement requirements, the extent to which disclosure-only relief remains proportionate, the diversity of the Tier 2 population, and whether the framework remains operable for entities with different levels of complexity, accounting capability and user needs.

24. These matters do not, of themselves, indicate that changes to the Tier 2 framework are required. Rather, they identify issues to be explored through the Tier 2 reporting framework assessment.

Legislative and regulatory environment

Legislative framework requiring GAAP-compliant financial reporting

25. Legislation determines which entities must prepare generally accepted accounting practice (**GAAP**) compliant financial statements. Once that reporting obligation exists, the ASF determines the applicable sector, tier and reporting requirements. This distinction is explained in the For-profit sector overview paper and the Definition of public accountability paper.

26. Under the current ASF, Tier 2 applies to for-profit entities that are required to report, do not have public accountability, and are not large for-profit public sector entities required to apply Tier 1 reporting requirements. For the Tier 2 population considered in this paper, the relevant tier allocation factor is the absence of public accountability.

27. Entities required to report that have public accountability apply Tier 1, while entities without public accountability may apply Tier 2 unless, they are large for-profit public sector entities required to apply Tier 1. This paper does not reassess those allocation criteria and the Definition of public accountability paper explains the public accountability concept in more detail.

Implications for Tier 2 framework assessment

28. Understanding the characteristics of mandated Tier 2 for-profit entities provides a foundation for assessing the suitability of reporting framework options. However, the population cannot be precisely identified or quantified because there is no central register that captures all entities required to apply Tier 2 standards, and many Tier 2 entities are not required to file financial statements with the Companies Office unless they are a Financial Market Conduct (**FMC**) reporting entities or otherwise subject to filing requirements.

29. The assessment therefore relies on the available evidence base, including consultations, stakeholder engagement, observed practice, standard-setting activities and regulatory or assurance-related channels. While these sources do not provide a complete view of all Tier 2 entities, they provide a reasonable basis for identifying relevant characteristics and assessing reporting framework options.

30. We acknowledge the fundamental limitation that complete data on the Tier 2 population is not available and that the considerations made may not work for all Tier 2 entities.

Characteristics of Tier 2 entities

Common characteristics of Tier 2 entities

31. Tier 2 for-profit entities comprise for-profit entities that are required to prepare GAAP-compliant financial statements and are allocated to Tier 2 under the ASF because they do not have public accountability and are not large for-profit public sector entities required to apply Tier 1 reporting requirements.

32. For contextual purposes, the broader population of entities applying Tier 2 may include:
    - large private companies;
    - large overseas companies;
    - companies with significant employees;
    - companies with 10 or more shareholders, unless they have opted out where permitted;
    - companies that have opted in to prepare GAAP-compliant financial statements;
    - subsidiaries or other entities within wider corporate groups;
    - entities with external financing or other contractual reporting obligations; and
    - entities captured by sector-specific or other statutory reporting requirements.

33. Some entities are included because they meet statutory reporting requirements, while others may prepare GAAP-compliant financial statements because of shareholder, overseas company or sector-specific requirements. Appendix 2a of the For-profit sector overview paper provides supporting information on selected legislative provisions that may require for-profit entities to prepare GAAP-compliant financial statements. This paper does not assess the appropriateness of legislative reporting thresholds or allocation criteria, and the ASF review assessment focuses on Tier 2 entities which are legally required to follow Tier 2 standards. Considerations relating to entities that voluntarily opt in to apply Tier 2 reporting requirements are also addressed separately in the Entities that voluntarily apply Tier 2 reporting requirements paper.

34. The Tier 2 population is characterised by entities that do not have public accountability but may nevertheless have external users who rely on general purpose financial statements (**GPFS**), are economically significant, have group reporting needs, stewardship or compliance responsibilities, and have varying levels of complexity and reporting capability.

35. These characteristics indicate that Tier 2 entities are not a uniform population – some may have relatively straightforward transactions and limited accounting capability, while others may operate in wider groups, have external financing, or have users who compare financial information across jurisdictions. User needs, preparer capability and reporting expectations may therefore differ across the Tier 2 population.

36. These matters are considered in more detail in the following sections on user and preparer considerations, international practice, alignment and comparability considerations, and practical implementation matters.

37. Population information in Appendix 2a of the For-profit sector overview paper is intended to illustrate the nature and range of legislative pathways that may bring mandated entities into the Tier 2 reporting, rather than quantify the total size of the Tier 2 population.

38. Although the Tier 2 population cannot be precisely quantified, the legislative settings indicate that some entities required to report under Tier 2 may be economically significant. For example, the Financial Reporting Act 2013 defines "large" entities by reference to asset and revenue

thresholds, and the Companies Act 1993 requires certain large companies, large overseas companies and companies with 10 or more shareholders to prepare GAAP-compliant financial statements. The absence of public accountability therefore does not necessarily mean that a Tier 2 entity is economically insignificant or that its financial statements have limited users.

Information needs of users and preparers

Users of Tier 2 financial statements

39. The Conceptual Framework explains that general purpose financial reports (**GPFR**), which includes general purpose financial statements (**GPFS**), are primarily prepared for existing and potential investors, lenders and other creditors who rely on financial information to make decisions about providing resources to an entity.

40. In practice, primary users of financial statements prepared by Tier 2 entities may include existing and potential investors (where appropriate), lenders, analysts, regulators, depositors, policyholders, scheme members and other stakeholders. They may use those financial statements to assess financial performance, financial position, cash flows, risk exposures, stewardship and compliance with contractual or regulatory requirements.

41. Some Tier 2 entities may be closely held or part of wider groups, meaning some users may also obtain information through owner reporting, lender reporting, management reporting or other contractual reporting channels. In those circumstances, GPFS may be one source of information rather than the primary source. However, some other users may be external to the entity and may not have access to detailed internal management information. For these users, GPFS can provide a common basis for understanding the entity's reported financial information and assessing stewardship and accountability.

42. The extent to which users rely on GPFS may differ across the Tier 2 population and different users may focus on different aspects of that information depending on the nature of the entity, their relationship with the entity and the decisions they are making.

    - Lenders may focus on financial position, cash flows, security and covenant compliance;
    - Shareholders or owners may focus on stewardship, performance, distributions and compliance with shareholder reporting requirements;
    - Parent entities may focus on information that is consistent with group reporting and consolidation requirements;
    - Regulators may use financial statements alongside other regulatory or compliance information; and
    - Prospective investors, suppliers or other stakeholders may use financial statements to assess financial performance, financial position, risk and the capacity of the entity to meet obligations.

43. Stakeholder feedback through the discussion paper and targeted outreach will be important in testing whether the identified user needs remain consistent with current practice. Feedback from users of Tier 2 GPFS – including lenders, tax authorities, regulators and other stakeholders, will also help identify which financial information is most useful for the decisions they make.

Preparers and operational considerations

44. Preparers of Tier 2 financial statements may have mixed or limited reporting infrastructures, systems and specialist expertise compared to those entities in Tier 1. However, applying Tier 2 reporting requirements may still involve significant judgement, system capability,

documentation, audit support, implementation effort and ongoing costs, as the proportionality mechanism is reduced disclosure requirements only. Relevant operational considerations include accounting expertise, auditability, system capability, group reporting interactions, regulatory reporting interactions and the resources required to implement and maintain reporting requirements over time.

45. Requirements that are difficult to understand, apply or audit may increase compliance costs, particularly for Tier 2 entities with limited internal capability or less complex transactions. Compliance costs may include management time, finance resources, auditor effort and advisory support, and are relevant when assessing whether reporting requirements are proportionate to the benefits obtained by users of financial statements.

Implications for framework assessment

46. These user and preparer considerations are relevant to the reporting framework assessment because they indicate the type of information Tier 2 users need and the practical conditions under which preparers must provide it. They help assess whether the reporting framework options support decision-useful, transparent, comparable, credible and technically robust reporting, while remaining understandable, operable and coherent with Tier 1 reporting, and proportionate for entities required to report under Tier 2.

International practice, alignment and comparability considerations

Reporting approaches used in other jurisdictions for non-publicly accountable entities

47. New Zealand's Tier 2 for-profit entities operate within an economy that is closely connected with global trade, investment and trans-Tasman business activity. International practices therefore provide reference points for how other jurisdictions structure reporting requirements for entities that are not listed, do not have public accountability, or are subject to proportionate reporting requirements. This is relevant to the Tier 2 assessment because some Tier 2 entities may have users who compare financial information across entities, groups and jurisdictions (albeit to a lesser degree than users of Tier 1 financial statements).

48. International comparisons are useful reference points, but they are not directly determinative for New Zealand. Each jurisdiction has its own legislative, regulatory and economic environment, and may apply different criteria for determining which entities use particular reporting frameworks. As a result, approaches used for non-listed or non-publicly accountable entities overseas are not directly equivalent to New Zealand's mandated Tier 2 population.

49. Appendix 1 provides a high-level comparison of reporting frameworks used by New Zealand's top trading partners and selected G20 jurisdictions. The comparison indicates that there is no single international model for reporting by for-profit entities without public accountability. Approaches include IFRS-based frameworks with reduced disclosures, separate domestic or private-company frameworks, IFRS for SMEs, IFRS-converged frameworks and local modifications. The appendix is intended to identify broad reporting approaches relevant to the Tier 2 assessment, rather than provide a comprehensive legal analysis of each jurisdiction.

Trans-Tasman alignment and comparability

50. International recognition and trans-Tasman alignment may be relevant for some Tier 2 entities where financial information is used by lenders, parent entities, investors, regulators or other users across jurisdictions. As noted in XRB A1 paragraph BC16, harmonisation with Australia was considered a particularly important factor in establishing the for-profit tier framework, given Government policy and the number of for-profit entities with trans-Tasman reporting obligations (as many NZ Tier 2 entities may consolidate into a large Australian group). Alignment may

support comparability, group reporting, consolidation processes, audit and assurance processes, workforce mobility, and the use of existing systems, processes and expertise. However, for some Tier 2 entities that have no interests overseas, this may not be a factor at all.

51. Trans-Tasman alignment sits within the broader Australia–New Zealand economic and regulatory ties, including the Closer Economic Relations agreement, the Single Economic Market agenda, and cooperation on business law coordination. These policy settings support regulatory coordination and reduced barriers for businesses operating across both jurisdictions and provide context for considering trans-Tasman comparability in the Tier 2 framework assessment.

52. Australia provides a specific trans-Tasman comparator because New Zealand's Tier 2 framework is currently aligned with Australia's IFRS-based approach through common recognition and measurement requirements, although the disclosure reduction mechanisms are not identical. Australia's Tier 2 framework retains Tier 1 recognition and measurement requirements, with simplified disclosure requirements set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. However, the assessment should still consider whether New Zealand-specific factors, including the absence of public accountability, the diversity of the Tier 2 population, user information needs, preparer and auditor capability, regulatory settings and the objectives of the ASF, indicate that a different approach would be more appropriate for Tier 2 reporting.

53. The international comparison provides useful reference points, but the assessment of options also needs to reflect New Zealand's own Tier 2 population, legislative settings and ASF objectives. As a relatively small jurisdiction, New Zealand's framework decisions may have implications for the wider reporting ecosystem, including preparer and auditor capability, education and professional training, software and systems, guidance, implementation support and workforce mobility and interoperability with Tier 1 reporting.

Practical challenges with the current Tier 2 framework

54. The current Tier 2 framework, NZ IFRS RDR, allows New Zealand to retain alignment with NZ IFRS recognition and measurement requirements while providing reporting relief mainly through reduced disclosures. This may assist entities that grow and move into Tier 1 over time, and users who compare financial statements across Tier 1 and Tier 2 entities. However, practical challenges can arise where full NZ IFRS recognition and measurement requirements are complex, change over time, or where the compliance effort needed to apply requirements does not result in benefits to users.

55. The main practical challenges with the current framework are:

- **Ongoing implementation and maintenance effort** – Tier 2 entities need to monitor and implement new and amended NZ IFRS requirements, including related changes to systems, processes, controls, accounting policies, disclosures, audit evidence and staff training. This effort may be significant for entities with limited internal reporting capability and where changes are primarily developed for entities with public accountability. Maintenance effort also continues over time because each change to NZ IFRS needs to be assessed for its Tier 2 disclosure implications.
- **Technical judgement and application consistency** – NZ IFRS are principles based and may require judgement in applying recognition and measurement requirements to complex or evolving transactions. Application may depend on preparer, auditor and advisor capability and assessments of individual facts and circumstances.

- **Proportionality of recognition and measurement requirements –** Tier 2 entities receive disclosure relief but apply the same recognition and measurement requirements as Tier 1 entities. This supports comparability and movement between tiers but may be more complex than necessary for some Tier 2 entities without public accountability (particularly those that are closely held and will never have public accountability).
- **Disclosure relief and compliance effort –** Reduced disclosures can lower the volume of information presented in Tier 2 financial statements. However, the effort saving may not be proportionate to the reduction in disclosure volume, as preparers still need to identify which IFRS disclosures apply, which RDR concessions are available, and whether the resulting disclosures remain complete, useful, entity-specific and auditable. The disclosure checklist process can be complex, particularly where preparers start from full IFRS and work back to determine which disclosures are retained, reduced or removed. This may create compliance and audit effort, particularly for entities with limited internal reporting capability.
- **Limited domestic flexibility –** Maintaining alignment with IFRS recognition and measurement requirements limit New Zealand's ability to simplify requirements or tailor requirements for domestic Tier 2 circumstances without affecting IFRS alignment.

56. These challenges do not, of themselves, indicate that the current Tier 2 framework should change. Rather, they provide context for assessing whether retaining IFRS RDR remains fit-for-purpose, proportionate and operable for entities required to apply Tier 2 reporting requirements.

Reporting framework options considered

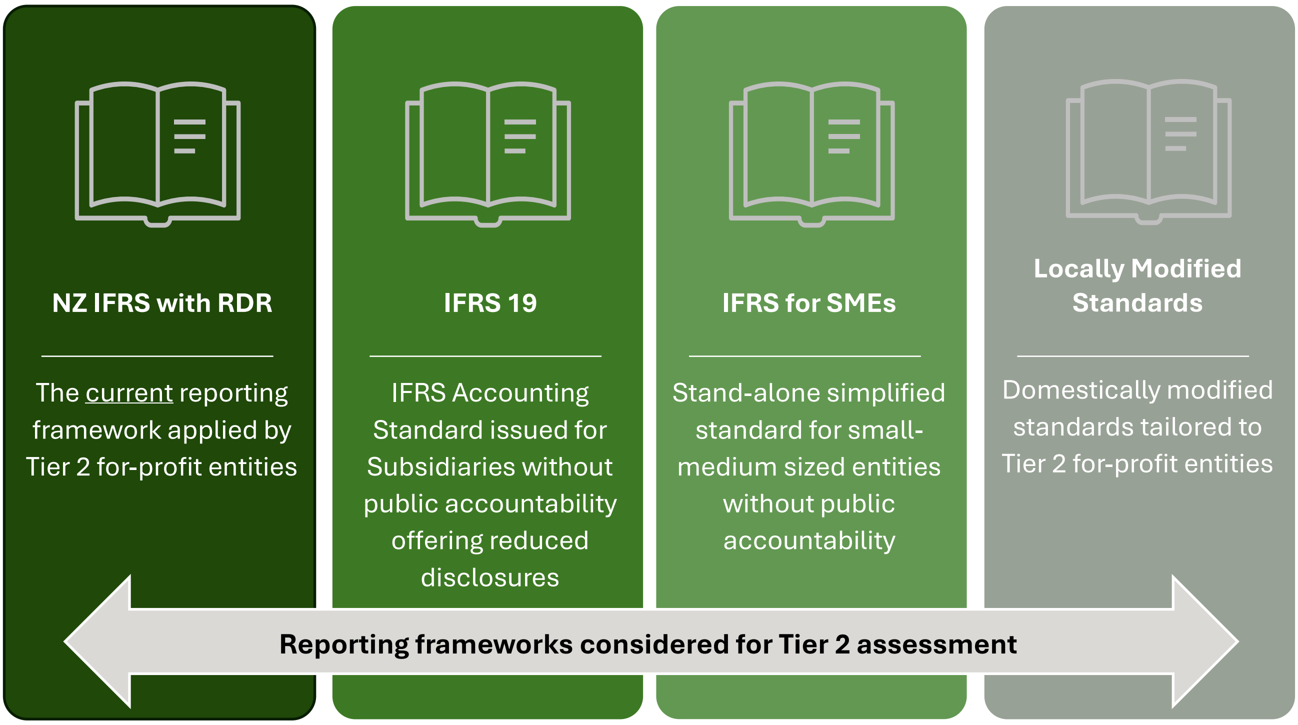
57. This paper considers selected reporting framework options that could apply to entities required to report under Tier 2. The options have been selected to illustrate different framework-level approaches to Tier 2 reporting, including continuing with the current IFRS RDR framework, considering another IFRS-based disclosure-reduction model, considering a separate simplified international framework, or considering a framework with greater New Zealand-specific modification.

58. The selected options allow the assessment to consider different trade-offs, including proportionality, comparability, technical robustness, international alignment, group reporting, operability and implications for New Zealand's reporting ecosystem.

59. US GAAP was assessed in the Tier 1 for-profit reporting framework review paper as a comprehensive non-IFRS comparator and was not considered a viable option for Tier 1. Given the importance of interoperability between Tier 1 and Tier 2, including movement between tiers, group reporting and a common reporting ecosystem, US GAAP has not been included as a viable Tier 2 framework option. For further detail refer to the Tier 1 for-profit reporting framework review paper.

60. Special purpose financial reporting has not been assessed as a separate framework option for Tier 2 entities due to our focus on entities required to prepare GAAP-compliant financial statements. Further consideration to special purpose financial reporting and its roles within the ASF review has been considered separately in the Special purpose financial reporting paper.

61. The reporting framework options selected for assessment are summarised in the visual below. Each framework option will be assessed against the established framework-level criteria as outlined in the [For-profit sector overview paper](#).



62. Inclusion of a framework option in the assessment does not mean it is proposed to be carried forward for consultation. Rather, it reflects staff's consideration of whether any alternative frameworks may provide a suitable option to explore further in the public discussion paper.

Implementation considerations for options involving change

63. Any change from the current Tier 2 for-profit reporting framework would have implications for how the ASF operates for entities required to apply Tier 2 reporting requirements. The feasibility, timing and implementation pathway for any option involving change would require further consideration before any proposal could be developed.

64. This would include consideration of the extent to which any changes fall within the XRB's mandate, interactions with existing legislative and regulatory settings, whether consequential amendments to legislation, regulations or other instruments would be required, whether Ministerial approval would be required for particular changes, and appropriate transition arrangements for affected Tier 2 entities.

65. These implementation considerations have not been assessed in detail as part of the preliminary Tier 2 framework option analysis. They will form an important part of any future development work if the Board decides to explore an option involving change further.

Optionality and framework coherence considerations within Tier 2

66. A further design question is whether Tier 2 for-profit entities should be permitted to choose between more than one reporting framework.

67. Optionality may provide flexibility for some entities, particularly where an entity is part of a wider group, has overseas ownership, uses a parent reporting framework, or has users who compare financial information across jurisdictions. However, allowing more than one framework within

Tier 2, such as permitting different entities to apply NZ IFRS RDR, IFRS for SMEs or a locally modified framework, may reduce comparability, affect user understanding and increase audit, regulatory, systems and capability requirements across the reporting ecosystem.

68. Optionality may also affect framework coherence. The ASF tier structure is intended to provide a clear basis for determining which reporting requirements apply to different entity populations with the characteristics and user needs of Tier 2 in mind. Allowing multiple frameworks within Tier 2 could reduce that clarity unless the circumstances in which each framework may be used are clearly defined.

69. For these reasons, optionality is not assessed as a separate reporting framework option in this paper. Instead, it is treated as a possible design feature that could be considered if the ASF review identifies a need for greater flexibility within Tier 2, including whether different framework options should be available only in clearly defined circumstances.

70. Staff propose that the public discussion paper include a question seeking stakeholder views on whether optionality within Tier 2 should be considered and, if so, in what circumstances and with what implications for comparability, cost, complexity, system coherence and the ongoing maintenance of disclosure concessions.

Analysis of framework options

The Tier 2 reporting framework assessment

71. The analysis that follows applies the framework-level assessment criteria outlined in the For-profit sector overview paper to IFRS RDR and the alternative reporting framework options considered in this paper. The criteria are applied considering the Tier 2 context discussed above, including entity characteristics, legislative and regulatory settings, user and preparer needs, international alignment, interoperability with Tier 1 and practical implementation considerations.

72. The criteria are intended to be applied collectively and do not have fixed weightings, with judgement to support a structured and balanced evaluation of each option. We recognise that simplification and proportionality may carry greater weight for some entities, while interoperability and international alignment may remain important for other entities within groups or with cross-border users. This section summarises the main observations from the assessment and Appendix 5 provides the detailed criterion-by-criterion analysis based on our research and assessment.

73. For this Tier 2 assessment, interoperability with Tier 1 is considered as part of the broader ASF review criteria. It refers to the extent to which a Tier 2 framework remains compatible with the Tier 1 for-profit framework, including consistency in recognition and measurement requirements, movement between tiers, group reporting and consolidation processes, and the use of a common reporting ecosystem. For the purposes of this analysis, the Tier 1 framework is assumed to remain IFRS-based, consistent with the Tier 1 framework analysis in the broader ASF review.

74. We have considered and assessed five possible frameworks for Tier 2 for-profit entities as set out in Appendix 5. Below is the summary assessment across the framework-level assessment criteria used across the broader ASF review.

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 NZ standards	🔴	🟠	🟢	🔴	🟢	🔴	🟡	🟡
E. US GAAP	🔴	🟠	🔴	🟠	🔴	🔴	🔴	🟠

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

Current framework: IFRS RDR

Reporting framework overview

75. As discussed earlier in the paper, IFRS RDR is the current reporting framework applied by Tier 2 for-profit entities. It is based on IFRS Accounting Standards adopted in New Zealand and provides full IFRS recognition, measurement and presentation requirements, with reduced disclosure requirements intended to provide reporting relief for entities without public accountability. Further information about IFRS RDR is provided in the IFRS factsheet in Appendix 2.

Implications for mandated Tier 2 entities

76. Retaining IFRS RDR would support continuity because it is already embedded within New Zealand's financial reporting environment. Existing preparer, auditor, advisor, education, software and implementation capability is largely built around IFRS-based reporting and therefore retaining the current framework would avoid the transition disruption and implementation costs associated with moving to a different framework.

77. IFRS RDR supports interoperability with Tier 1 because Tier 2 entities apply the same recognition and measurement requirements as Tier 1 entities. This may support comparability, group reporting, consolidation processes and movement between tiers, and may reduce the need for accounting adjustments where entities grow, restructure, move within group structures or become publicly accountable.

78. The framework also supports international and trans-Tasman comparability because it remains aligned with IFRS-based recognition and measurement requirements and is broadly comparable with Australia's IFRS-based Tier 2 approach. This is important given the Government policy context for harmonisation with Australia and the number of Tier 2 for-profit entities with trans-Tasman reporting obligations, as noted in XRB A1 paragraph BC16. This may also be relevant for Tier 2 entities with overseas ownership, external financing, group reporting needs or users who compare financial information across jurisdictions.

79. IFRS RDR also allows disclosure concessions to be determined domestically for New Zealand's Tier 2 population. This provides flexibility to consider New Zealand user needs, preparer capability, auditability and the broader mandated Tier 2 population when deciding which disclosures should be retained or reduced. However, maintaining domestic disclosure concessions requires ongoing standard-setting effort as IFRS changes.

80. The main trade-off is that simplification is achieved primarily through disclosure relief rather than different recognition and measurement outcomes. Tier 2 entities continue to apply full

IFRS recognition and measurement requirements, which may be complex for some entities and may not address the main source of reporting effort for some entities.

81. The extent of cost savings may also depend on whether disclosure relief reduces the end-to-end information gathering and reporting process, rather than only reducing the number of disclosures presented. Preparers and auditors still need to assess which full IFRS disclosures apply, which RDR concessions are available, and whether the financial statements remain complete, useful, entity-specific and auditable.

Overall observations

82. Overall, retaining IFRS RDR provides continuity with the current Tier 2 framework, maintain alignment with the IFRS-based reporting ecosystem, support interoperability with Tier 1 and allow domestic calibration of disclosure concessions for the broader Tier 2 population. However, Tier 2 entities would need to monitor and implement IFRS developments, including changes primarily developed for entities with public accountability. Questions may therefore remain about whether disclosure-only relief appropriately balances comparability, proportionality, operability and user information needs across the Tier 2 population.

Alternative framework: IFRS 19

Reporting framework overview

83. IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is an IFRS Accounting Standard issued by the International Accounting Standards Board (**IASB**). It is contained within the suite of IFRS Accounting Standards and is not a new or separate reporting framework in itself. IFRS 19 permits eligible subsidiaries without public accountability to apply full IFRS recognition and measurement requirements with reduced disclosure requirements, enabling those subsidiaries to use the same underlying accounting as the group while reducing disclosures in their own financial statements.

84. IFRS 19 is included in this assessment because it provides an internationally set disclosure-reduction framework for eligible subsidiaries, which is an alternative to NZ IFRS RDR. IFRS 19 differs from NZ IFRS RDR in two main respects:

   - First, its scope is narrower because it applies only to eligible subsidiaries without public accountability whose parent prepares publicly available IFRS-compliant consolidated financial statements. This would only be a subset of Tier 2 entities and not the whole population of Tier 2 entities.
   - Second, the reduced disclosure requirements are set by the IASB, whereas NZ IFRS RDR reflects disclosure concessions determined for New Zealand Tier 2 reporting across the broader Tier 2 population and are set by the External Reporting Board (**XRB**).

85. Both frameworks retain full IFRS recognition and measurement requirements. IFRS 19 is effective for annual reporting periods on or after 1 January 2027, with earlier adoption permitted. Further information about the IFRS Standards (including IFRS 19) is provided within the IFRS factsheet in Appendix 2.

Implications for mandated Tier 2 entities

86. We performed a detailed analysis on the comparison between current RDR and IFRS 19 and our analysis highlighted that while many disclosure requirements in IFRS 19 are like those in IFRS RDR, IFRS 19 includes several additional disclosure requirements. Consequently, IFRS 19 would generally require more disclosures to be made by entities compared to IFRS RDR and the

benefits to users would need to justify the costs for Tier 2 entities to provide these additional disclosures.

87. IFRS 19 may support consistency within groups, consolidation processes and movement between tiers because eligible subsidiaries continue to apply full IFRS recognition and measurement requirements. This may be particularly relevant for Tier 2 entities within larger reporting groups whose parent prepares publicly available IFRS-compliant consolidated financial statements.

88. IFRS 19 may reduce domestic maintenance effort because reduced disclosure requirements would be set internationally by the IASB rather than maintained through domestic RDR concessions issued by the XRB. However, this would also reduce New Zealand's ability to tailor reduced disclosures to the information needs of New Zealand Tier 2 users. Applying IFRS 19 would also require updates to reporting processes, disclosures, audit methodologies and guidance for eligible entities.

89. The main limitation is that IFRS 19 applies only to eligible subsidiaries and does not address recognition and measurement complexity. It may therefore provide a useful disclosure-reduction pathway for a subset of entities but would not provide a complete framework for all Tier 2 entities.

90. Its practical effect would also depend on how many mandated Tier 2 entities meet the eligibility conditions. Because the Tier 2 population cannot be precisely identified or quantified from a complete public dataset, it may be difficult to determine the extent to which IFRS 19 would address issues across the broader Tier 2 population. Introducing a separate IFRS 19 pathway alongside IFRS RDR could add complexity within Tier 2, with implications for comparability, user understanding, audit consistency, education and guidance.

Overall observations

91. Overall, IFRS 19 may provide a useful internationally set disclosure-reduction pathway for eligible subsidiaries and a reference point for considering the ongoing maintenance of domestic RDR concessions. However, because its application is limited to eligible subsidiaries, it remains within full IFRS recognition and measurement, and its use would require ASF design decisions, it would have limited application as a standalone Tier 2 framework.

Alternative framework: IFRS for Small to Medium-Sized Entities (SMEs)

Reporting framework overview

92. The IFRS for SMEs Accounting Standard is a stand-alone standard issued by the IASB for entities without public accountability. It provides a simplified framework with reduced disclosure requirements and simplified recognition and measurement compared with full IFRS.

93. Unlike NZ IFRS RDR and IFRS 19, it does not retain full IFRS recognition and measurement requirements but instead applies a separate set of accounting requirements designed for less complex entities (generally driven by historical IFRS requirements). Further information about the framework can be read in the IFRS for SMEs factsheet in Appendix 3.

Implications for mandated Tier 2 entities

94. IFRS for SMEs is designed for entities without public accountability and includes simplifications in recognition, measurement and disclosure. This may align with the needs of users for some Tier 2 entities, particularly those with less complex transactions, limited reporting capability and where full IFRS-aligned accounting outcomes are not necessary. However, the mandated Tier 2 population is broader than small to medium sized entities and may include large, economically

significant, externally financed or group entities (which IFRS for SMEs is not specifically designed for).

95. The main trade-off is that IFRS for SMEs departs from NZ IFRS recognition and measurement. This may reduce complexity and ongoing change for some entities, but may also affect comparability with Tier 1 entities, group reporting, consolidation processes and movement between tiers. Entities moving from Tier 2 to Tier 1, or reporting into NZ IFRS groups, may need accounting adjustments because IFRS for SMEs can produce different accounting outcomes from NZ IFRS, which will add time, cost and effort for those entities and groups.

96. Adopting IFRS for SMEs would represent a shift away from the current NZ IFRS-based reporting environment. It would require transition work, including identifying differences in accounting policies, opening balances and comparative information, as well as updates to reporting processes, systems, audit methodologies, training and guidance across the reporting ecosystem. As IFRS for SMEs is an IASB developed standard, significant international resources and guidance is available to assist entities.

97. IFRS for SMEs is updated through periodic comprehensive reviews, with the IASB generally aiming to review the standard approximately every five years, rather than through the continuous amendment cycle as applied to full IFRS Accounting Standards. This may provide greater stability and reduce ongoing maintenance effort compared with full NZ IFRS. However, it may also mean that the framework does not respond as quickly to emerging transactions, developments in high-quality financial reporting or changing user needs, and New Zealand would have limited ability to influence the timing or content of IASB updates.

Overall observations

98. Overall, IFRS for SMEs may provide a more proportionate framework for some mandated Tier 2 entities, particularly where simplified recognition, measurement and disclosure requirements better reflect user needs and reporting capability. However, it would also introduce a separate non-NZ IFRS accounting basis, with implications for comparability, group reporting, movement between tiers, transition, capability and the coherence of the ASF.

Alternative framework: Locally modified standards

Reporting framework overview

99. The NZASB could explore locally developed standards across most of the ASF tiers as a possible option within the broader ASF review. We have considered the best approach and concluded that this would not mean developing standards from a blank page. Instead, New Zealand could use an established framework from another jurisdiction, such as the United Kingdom, Australia, or another jurisdiction, as a starting point and make targeted modifications where needed for the New Zealand context. Therefore, this will be referred to as locally modified standards.

100. Locally modified standards would involve adopting another reporting framework as a base and modifying that framework to reflect New Zealand-specific requirements, circumstances or policy objectives. The nature and extent of modifications could vary depending on the objectives of the framework and the underlying framework selected. Further information about the indicative approach to locally modified standards is provided in Appendix 4.

Implications for mandated Tier 2 entities

101. A locally modified framework may provide greater flexibility to respond to New Zealand-specific considerations. Depending on the underlying framework and extent of modification, it may also provide more scope to simplify or adapt requirements for mandated Tier 2 entities, including recognition, measurement, presentation or disclosure requirements where full NZ IFRS-based

requirements are not considered proportionate for entities without public accountability. The implications would depend on the design of the locally modified framework and the suitability of the source framework selected for the Tier 2 population, legislative settings and user needs. Limited modifications to an existing international or jurisdictional framework would have different effects from a more bespoke New Zealand framework.

102. If an IFRS-based framework were used as the source framework, copyright and licensing arrangements would need to be considered. Current IFRS licensing arrangements may constrain the extent to which New Zealand could selectively use, amend or combine IFRS Accounting Standards outside the permitted adoption model[1]. Other jurisdiction's standards may contain similar or more restrictive copyright limitations as well.

103. A significant question is how the potential benefits of greater local relevance and proportionality should be weighed against the implications of moving further away from NZ IFRS alignment. The implications are likely to differ across tiers and sectors. For Tier 2 entities, a locally modified framework may be more relevant where user needs and preparer capability do not require full NZ IFRS-aligned accounting outcomes, but reduced alignment may affect comparability with Tier 1 reporting, group reporting, consolidation processes, movement between tiers and overall ASF coherence.

104. A locally modified framework may affect international and trans-Tasman comparability, recognisability, auditability, systems, guidance and standard-setting capacity. The extent of these effects would depend on the source framework selected, the nature and extent of any modifications, and how readily users, auditors and regulators could understand and apply the resulting framework.

Overall observations

105. Overall, locally modified standards may provide greater domestic flexibility and may support a more proportionate framework for some mandated Tier 2 entities. However, those benefits would not be automatic and would need to be weighed against reduced comparability and interoperability, transition and implementation costs, standard-setting and maintenance demands, access to guidance, ecosystem readiness, the need for disciplined change control and the risk of over-tailoring. While globally competitive capital markets are more directly relevant to the Tier 1 framework assessment, international comparability may still be relevant for some Tier 2 entities, particularly those with growth intentions which involve listing. overseas ownership, group reporting obligations, external financing or users who compare financial information across jurisdictions.

Summary observations and framework options for consultation

106. The assessment indicates that each reporting framework option could provide a basis for Tier 2 reporting, but each would involve different implications for mandated Tier 2 entities. The public discussion paper is intended to seek open feedback on whether the current framework remains appropriate or whether an alternative approach would better balance comparability, proportionality, operability and user information needs for mandated Tier 2 reporters.

107. The assessment identified different benefits and trade-offs across the four framework options.

- **IFRS RDR** provides continuity, interoperability with Tier 1, domestic calibration of disclosure concessions and avoids transition disruption, but retains full IFRS

[1] IFRS Foundation, Licensing of IFRS Standards for adoption and jurisdictional use. This page outlines the IFRS Foundations adoption and copyright arrangements for jurisdictions using IFRS Accounting Standards.

recognition and measurement, ongoing IFRS and RDR maintenance, and RDR compliance effort.

- **IFRS 19** may provide an internationally set disclosure-reduction pathway for eligible subsidiaries but has limited application as a standalone Tier 2 framework due to the differences in scope of eligible entities and the Tier 2 population of New Zealand.
- **IFRS for SMEs** may provide more scope for proportionality or domestic flexibility for some entities, but would involve trade-offs for comparability, group reporting, movement between tiers, transition, capability, maintenance and ASF coherence.
- **Locally modified standards** may provide greater domestic flexibility, but there may be significant impacts on the comparability, maintenance, transition requirements and ecosystem implications for Tier 2 entities. This option could be explored further with stakeholders, including through an indicative methodology to explain what the approach could mean in practice.

108. As such, the framework options proposed to be tested further with stakeholders in the public discussion paper for Tier 2 for-profit entities are IFRS RDR, IFRS 19, IFRS for SMEs and locally modified standards. Inclusion of these options is intended to seek stakeholder feedback on the relative benefits, limitations and trade-offs of each option. The analysis does not indicate that any option is preferred or proposed to retain or replace the current framework.

109. We also note that optionality within Tier 2 may provide flexibility for some entities, but could affect comparability, user understanding, audit consistency, cost, complexity and framework coherence. The public discussion paper should therefore seek stakeholder views on whether optionality within Tier 2 should be considered and, if so, in what circumstances and with what implications for the Tier 2 reporting ecosystem.

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on the analysis presented, including whether it appropriately reflects the key characteristics, reporting needs, challenges, and non-public accountability considerations, as well as any other contextual information relevant to the Tier 2 for-profit entities?

Q2. What are the Board's **VIEWS** on the key trade-offs identified, including whether these appropriately capture the considerations relevant to assessing the Tier 2 for-profit framework?

Q3. Does the Board **IDENTIFY** any areas where further analysis or evidence is required to support the ASF discussion paper?

Extract of public discussion paper

110. We propose including the following blue extract in the public discussion paper to summarise the Tier 2 for-profit reporting framework analysis to test and seek stakeholder feedback on all framework options considered for this tier, along with Appendices 2-5 below.

111. The paper will also summarise the implications of IFRS 19, IFRS for SMEs, and a locally modified framework, and questions to be explored with the stakeholders.

Background for Tier 2 for-profit reporting

The ASF review considers whether the current Tier 2 for-profit reporting framework remains appropriate for entities required to apply Tier 2 reporting requirements. Tier 2 for-profit entities apply New Zealand equivalents to International Financial Reporting Standards with Reduced Disclosure Requirements (**NZ IFRS RDR**), which retain full IFRS recognition, measurement and presentation requirements while providing reduced disclosures for entities without public accountability.

The review does not explore which entities are required by Acts of Parliament to prepare financial statements, as this is driven by the primary legislation itself and cannot be altered through changes to the ASF. The review also does not consider detailed amendments to individual financial reporting standards. Instead, it focuses on whether the current Tier 2 reporting framework, and selected alternative framework options, remain appropriate for entities already required to report in Tier 2.

Tier 2 entities are for-profit entities that are required to prepare GAAP-compliant financial statements and are allocated to Tier 2 because they do not have public accountability and are not large for-profit public sector entities. The Tier 2 population is diverse and may include large private companies, large overseas companies, companies with 10 or more shareholders, entities captured by sector-specific requirements and entities within wider corporate groups. Some Tier 2 entities may look to transition into a Tier 1 entity, while others do not, however Tier 2 preparers may have less extensive reporting infrastructure than Tier 1 entities and incur proportionately higher level of costs in applying full reporting requirements that involves judgement, systems capability, audit support, implementation effort and ongoing cost.

The Conceptual Framework identifies existing and potential investors, lenders and other creditors as the primary users of GPFS, users of Tier 2 financial statements may include lenders, shareholders or owners, parent entities, regulators, prospective investors, suppliers, scheme members where the entity is an FMC reporting entity without a higher level of public accountability (HLPA) such as a managed investment scheme manager, and other stakeholders. Primary users of Tier 2 financial statements may include existing and potential investors, lenders and other creditors. Some users may also receive information through management reporting, owner reporting, group reporting, lender reporting, regulatory reporting or other contractual reporting arrangements. For other users, GPFS may provide a common, independently prepared source of information about the entity.

Alternative frameworks explored for Tier 2 for-profit reporting

We have explored the current IFRS RDR framework alongside selected alternative framework options for mandated Tier 2 entities. These options include IFRS 19, IFRS for SMEs and New Zealand locally modified standards. The options have been selected to test different approaches to balancing comparability, proportionality, interoperability with Tier 1, operability, domestic flexibility and wider reporting ecosystem implications. Optionality between different frameworks within Tier 2 is also considered as a possible design feature of the overall ASF.

Through our analysis, we have identified IFRS RDR, IFRS 19, IFRS for SMEs and locally modified standards as framework options appropriate to test further with stakeholders for Tier 2 for-profit entities. We have outlined an overview of the framework and what the implications may be on Tier 2 for-profit entities and stakeholders if such a framework was used. Supporting material in this discussion paper has also been included in within the Appendix, which includes factsheets on key information around reporting frameworks (IFRS and IFRS for SMEs), an indicative approach summary for locally modified standards and the detailed Tier 2 framework option assessment.

Questions for stakeholders

- **Do you consider that IFRS RDR remains appropriate as the Tier 2 for-profit reporting framework? Why or why not, including in relation to comparability, proportionality, operability, and user information needs?**
- **Do you consider that IFRS 19 should be considered for eligible subsidiaries within Tier 2, either as an available disclosure-reduction pathway or as a reference point for New Zealand's Tier 2 disclosure requirements?**
- **Do you consider that IFRS for SMEs should be considered as a possible Tier 2 for-profit reporting framework? Why or why not, including the implications for proportionality, comparability, group reporting, movement between tiers and transition costs?**
- **Do you consider that locally modified standards approach should be considered as a possible Tier 2 for-profit reporting framework? Why or why not, including whether the indicative approach outlined in this paper would help stakeholders understand how such a framework could be developed?**
- **Should Tier 2 for-profit entities have optionality to apply more than one reporting framework? If so, in what circumstances should optionality be considered, and what would the implications be for comparability, user understanding, audit consistency, cost, complexity and framework coherence?**
- **Do you have any other comments on alternative reporting frameworks for Tier 2 for-profit entities, including any other framework or design features not discussed?**
- **What factors should be given the most weight when assessing the Tier 2 for-profit reporting framework — for example, comparability, proportionality, cost, operability, user information needs, group reporting, movement between tiers, international alignment, or domestic flexibility?**

Questions for the Board

Q4. Does the Board have any **FEEDBACK** on the proposed information and questions for stakeholders to be included in the public discussion paper on this topic, as outlined in blue text.

Q5. Does the Board **AGREE** the discussion paper should seek stakeholder views around optionality – the ability to apply an alternative reporting framework in the Tier, and if so, what the implications would be for comparability, cost, complexity and system coherence?

Appendix contents

The appendices provide supporting material for the analysis in the main paper and are for the Board's consideration. Appendices 2, 3, 4 and 5 (in blue text) are proposed to form part of the public discussion paper, subject to Board feedback. The table below summarises the purpose of each appendix.

Appendix	Title	What it contains	Proposed inclusion in public discussion paper
Appendix 1	Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions	Provides a high-level comparison of reporting approaches used by New Zealand's top trading partners and selected G20 jurisdictions for listed and non-listed entities.	Board paper only
Appendix 2	IFRS factsheet	Provides supporting information on IFRS Accounting Standards, NZ IFRS RDR and IFRS 19 as the current and alternative Tier 2 reporting framework.	Include in Discussion Paper
Appendix 3	IFRS for SMEs factsheet	Provides supporting information about IFRS for SMEs Accounting Standard as an alternative Tier 2 reporting framework.	Include in Discussion Paper
Appendix 4	Locally modified standards – indicative approach	Provides supporting information about a locally modified standards approach and its framework-level implications.	Include in Discussion Paper
Appendix 5	Tier 2 for-profit entities: framework options analysis	Provides the detailed assessment of each Tier 2 reporting framework option against the framework-level evaluation criteria.	Include in Discussion Paper

Appendix 1 – Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions

Country	Economic trade value (NZD billion)	Primary framework for other private or non-publicly accountable entities	Broad comparison with the NZ Tier 2 framework
New Zealand	Reference jurisdiction	IFRS with RDR	Baseline for comparison.
New Zealand top 10 trading partners*			
China	$43.02 total trade Exports $23.08; imports $19.94 Rank 1	Chinese Accounting Standards for Business Enterprises (ASBE)	Different approach – CAS/ASBE are substantially converged with IFRS, but China does not use a New Zealand-style Tier 2 reduced disclosure framework.
Australia	$36.40 total trade Exports $18.58; imports $17.82 Rank 2	AAS standards with simplified disclosures in AASB 1060 for eligible Tier 2 general purpose financial statements	Closest trans-Tasman comparator – both jurisdictions retain substantially the same recognition and measurement requirements for Tier 1 and Tier 2 entities while reducing Tier 2 disclosures. However, the Australian disclosure framework, scope and eligibility requirements are not identical to New Zealand's RDR framework.
United States of America	$30.54 total trade Exports $17.71; imports $12.83 Rank 3	US GAAP, with private company accounting alternatives available where applicable	Different approach – US GAAP is the principal framework for public and private business entities, but eligible private companies may apply specified recognition, measurement, presentation and disclosure alternatives. This is not a comprehensive Tier 2 reduced-disclosure regime comparable to NZ IFRS RDR.
Singapore	$11.00 total trade Exports $2.67; imports $8.33 Rank 4	Singapore Financial Reporting Standards (FRS), with Singapore Financial Reporting Standard for Small Entities (SFRS for SE) available for eligible entities.	Different approach – separate small-entity framework based on IFRS for SMEs, alongside full Singapore Financial Reporting Standards.

Japan	$9.38 total trade Exports $4.76; imports $4.62 Rank 5	Japanese GAAP (JGAAP), with IFRS Accounting Standards available in limited circumstances for eligible entities.	Different approach – primarily JGAAP for many non-listed entities, with IFRS and other frameworks permitted in limited circumstances for eligible entities.
Republic of Korea	$9.31 total trade Exports $3.26; imports $6.05 Rank 6	Korean GAAP / Korean accounting standards for non-listed entities	Different approach – separate domestic framework used for non-listed entities
United Kingdom	$7.73 total trade Exports $4.31; imports $3.42 Rank 7	UK GAAP (FRS 102), with FRS 101 available for qualifying group entities.	Different approach – separate framework for non-publicly accountable entities, with a reduced disclosure option limited to group entities
Germany	$3.83 imports No export top 10 value shown Rank 8	German Commercial Code requirements for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic law-based reporting for many non-listed entities.
Thailand	$3.16 imports No export top 10 value shown Rank 9	Thailand Financial Reporting Standards (TFRS) for Non-Publicly accountable entities, with TFRS available where applicable	Different approach – separate framework for non-publicly accountable entities.
Malaysia	$2.76 imports No export top 10 value shown Rank 10	Malaysian Private Entities Reporting Standard (MPERS), with Malaysian Financial Reporting Standards (MFRS) applying where required.	Different approach – IFRS-aligned framework for entities within scope, with a separate private-entity framework based on IFRS for SMEs.
Selected G20 jurisdictions**			
Taiwan	$2.32 exports No import top 10 value shown Rank 11	Enterprise Accounting Standards (EAS), with IFRS Accounting Standards as endorsed in Taiwan available in some circumstances.	Different approach – Taiwan uses a separate EAS framework for non-public companies, based on IFRS for SMEs, rather than a full IFRS recognition and measurement framework with reduced disclosures.

Argentina	Not shown in top 10 trade data	Local accounting standards, with IFRS-based requirements applying in some circumstances	Different approach – IFRS used for listed entities, with local requirements for many non-listed entities.
Brazil	Not shown in top 10 trade data	Brazilian accounting standards, with simplified requirements available for smaller entities in some circumstances	Different approach – IFRS-converged framework with local requirements for non-listed entities.
Canada	IFRS Accounting Standards for publicly accountable enterprises	Accounting Standards for Private Enterprises (ASPE) for private enterprises, with IFRS Accounting Standards available where applicable.	Different approach – separate domestic framework for private enterprises.
France	Not shown in top 10 trade data	French GAAP for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
India	$2.09 exports No import top 10 value shown Rank 13	Ind AS for listed and specified companies, with Accounting Standards for other companies	Different approach – IFRS-converged framework applies to listed and specified companies, with local Accounting Standards for other companies.
Indonesia	Not shown in top 10 trade data	SAK EP – Standar Akuntansi Keuangan Entitas Privat – for eligible private entities, with other Indonesian financial accounting standards applying depending on entity type.	Different approach – multiple frameworks applied based on entity size and type.
Italy	Not shown in top 10 trade data	Italian GAAP for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
Mexico	Not shown in top 10 trade data	Mexican Financial Reporting Standards for many non-listed entities	Different approach – IFRS for listed entities, with domestic standards for many non-listed entities.
Russia	Not shown in top 10 trade data	Russian accounting standards for many standalone and non-listed entity financial statements	Different approach – IFRS-based reporting for some entities, with domestic standards for many standalone and non-listed entity accounts.

Saudi Arabia	Not shown in top 10 trade data	IFRS for SMEs as endorsed in Saudi Arabia for eligible entities	Different approach – endorsed IFRS for publicly accountable entities and endorsed IFRS for SMEs for eligible non-listed entities.
South Africa	Not shown in top 10 trade data	IFRS or IFRS for SMEs depending on entity type, public interest score and reporting requirements	Different approach – IFRS for entities within scope, with IFRS for SMEs available for eligible entities.
Turkey	Turkish Financial Reporting Standards, aligned with IFRS for public interest entities and other entities within scope	BOBI FRS or other local reporting requirements for entities not applying full Turkish Financial Reporting Standards	Different approach – IFRS-aligned standards for public interest entities, with local frameworks for other entities.
European Union	EU-adopted IFRS for consolidated financial statements of listed groups	National GAAP requirements for many non-listed entities, subject to member state law	Different approach – IFRS for listed group reporting, with national frameworks for many non-listed entities.

* **Source**: Stats NZ New Zealand international trade dashboard to year ending 31 March 2026. Date of source retrieval 22 June 2026. New Zealand's top trading partners are identified based on total trade in goods and services for the year ended 31 March 2026. This is derived by considering the top export destinations and top import origins. Countries appearing in both export and import lists are treated as significant trading partners due to their two-way trade flows. Additional countries are included based on their prominence within either exports or imports to complete the selected top 10 group. The order of presentation is for comparison purposes and should not be read as a precise ranking of total trade flows.
** G20 rows are included to illustrate broad international practice. The table is intended to provide a high-level comparison of selected approaches and is not a comprehensive legal analysis of each jurisdiction.

*** The G20 comprises 19 countries together with the European Union, and, since 2023, the African Union. For the purposes of this table, the G20 country rows include the 19 individual country members and the European Union, excluding countries already listed as New Zealand top 10 trading partners.

Appendix 2 – IFRS factsheet

International Financial Reporting Standards (IFRS)

Fact Sheet

This fact sheet intends to provide an overview of the International Financial Reporting Standards Accounting Standards to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the IFRS framework

What the IFRS framework is

International Financial Reporting Standards (**IFRS**) Accounting Standards are a globally recognised set of accounting requirements for general purpose financial statements. They are developed by the International Accounting Standards Board (**IASB**), within the IFRS Foundation. IFRS is designed to improve transparency, consistency and comparability of financial reporting across jurisdictions.

At a glance

IFRS provides a comprehensive framework for public accountability to international investors, where users rely on high-quality, globally comparable information for capital-allocation decisions, but comes with complexity and reporting costs.

Who IFRS is mainly designed for

IFRS is primarily designed for publicly accountable entities, especially listed entities and other entities whose financial statements are used by investors, lenders and other capital-market participants. In many jurisdictions, IFRS forms the main reporting framework for these entities.

IFRS is an international benchmark

IFRS is widely used internationally and is designed to support comparability across jurisdictions. The IFRS Foundation currently has complete profiles for 169 jurisdictions, of which 148 jurisdictions require IFRS Accounting Standards for all or most domestic publicly accountable entities, 12 permit their use for at least some domestic publicly accountable entities, and 161 have made a public commitment to IFRS Accounting Standards. As a result, IFRS is often used as an international benchmark for accounting.

Key characteristics of the IFRS framework

- Principles-based requirements rather than highly prescriptive rules-based accounting treatments.
- Strong focus on professional judgement and reflecting the economic substance of transactions and events.
- Accrual accounting, with financial statements reflecting transactions and events when they occur rather than only when cash is received or paid.
- A mixed measurement model using historical cost in some areas and current value or fair value in others.
- Extensive presentation and disclosure requirements intended to help users understand recognised amounts, risks, assumptions, estimates and significant judgements.

How IFRS works in practice

IFRS sets requirements for recognition, measurement, presentation and disclosure.

Recognition requirements determine what items are reported

Recognition determines when assets, liabilities, income and expenses are included in the financial statements, while measurement determines the amounts at which they are reported. Recognition depends on whether the item provides useful information that faithfully represents the economic substance of the transaction.

Measurement requirements determine how reported items are valued

Measurement determines the amounts at which assets, liabilities, income and expenses are reported. IFRS uses a mixed measurement model most appropriate to the nature of the item, meaning some items are measured using historical cost while others use current value measures such as fair value, amortised cost, recoverable amount, or the lower of cost and net realisable value. Specific measurement requirements are specified for each type of asset and liability which an entity may hold and these vary based on what users would consider to be relevant information for that type of asset or liability.

Presentation and disclosure requirements help communicate items to users

IFRS includes presentation and disclosure requirements intended to help users understand financial performance, position, risks, assumptions and significant judgements. Presentation requirements determine how information is organised and displayed within the financial statements by setting out requirements for how assets, liabilities, income and expenses are classified, grouped and presented to support understandability and comparability.

Disclosure requirements provide additional information about recognised and unrecognised items, supplementary information, risks, assumptions, estimates, judgements and methods used in preparing the financial statements.

New Zealand reduced-disclosure context

In New Zealand, Tier 2 for-profit entities apply NZ IFRS with Reduced Disclosure Requirements (**NZ IFRS RDR**), which retains the same recognition and measurement requirements as full NZ IFRS but with fewer disclosures.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, a voluntary IFRS standard, provides alternative reduced disclosures for eligible subsidiaries without public accountability where the parent prepares publicly available consolidated financial statements.

IFRS is not a single accounting standard

IFRS is not a single accounting standard – It is a broader reporting framework made up of several components that work together to support consistent and comparable financial reporting. The IFRS framework includes:

- **IFRS Accounting Standards** – Standards issued by the IASB after its establishment in 2001, such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*).
- **International Accounting Standards (IAS Standards)** – Earlier standards issued before the IFRS Foundation was rebranded, many of which remain in force today, such as IAS 38 *Intangible Assets*.
- **IFRIC and SIC Interpretations** – Interpretative guidance issued to clarify the application of IFRS requirements in specific situations.
- **The Conceptual Framework** – Overarching concepts that support the development and application of IFRS, including principles relating to recognition, measurement and presentation.
- **Supporting guidance and educational material** – Additional non-mandatory material published by the IFRS Foundation and IASB to support consistent application and understanding of the standards.

Appendix 3 – IFRS for SMEs factsheet

International Financial Reporting Standards for Small and Medium-Sized Entities (**IFRS for SMEs**) Fact Sheet

This fact sheet intends to provide an overview of the IFRS for SMEs standard to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the IFRS for SMEs framework

IFRS for SMEs
Accounting Standard

What IFRS for SMEs is

The International Financial Reporting Standards for Small and Medium-Sized Entities (**IFRS for SMEs**) is a simplified international financial reporting framework developed by the International Accounting Standards Board (**IASB**) for entities without public accountability.

It is based on the principles of full IFRS Accounting Standards but is designed to reduce complexity, disclosure requirements, and implementation burden for smaller and less complex entities.

At a glance

IFRS for SMEs provides a simplified financial reporting framework for entities without public accountability—but at the cost of reduced flexibility, limited accounting options, and suitability for more complex or evolving transactions.

The framework simplifies a number of accounting requirements, removes some topics considered less relevant to smaller entities, and includes fewer disclosure requirements than full IFRS Accounting Standards.

Who IFRS for SMEs is mainly designed for

IFRS for SMEs is designed for entities that do not have public accountability and prepare general purpose financial statements for external users such as lenders, owners, creditors, or other stakeholders. The framework is generally intended for privately-owned and less complex entities rather than those that are listed or publicly accountable and do not enter into complex transactions frequently. Public accountability is defined in New Zealand in *XRB A1 Application of the Accounting Standards Framework*.

IFRS for SMEs as an international benchmark

IFRS for SMEs is used or permitted in many jurisdictions internationally as a simplified reporting framework for eligible private entities. It is designed to provide an internationally recognised financial reporting framework while reducing the complexity and disclosure burden associated with full IFRS Accounting Standards. Although adoption varies across jurisdictions, IFRS for SMEs is often considered when jurisdictions assess simplified reporting frameworks for non-publicly accountable entities.

Key characteristics of the IFRS for SMEs reporting framework

Key characteristics of the IFRS for SMEs reporting framework include:

- Simplified accounting requirements compared to full IFRS Accounting Standards with reduced disclosure requirements.
- Based on historical cost accounting, with limited use of fair value and fewer accounting policy options
- Intended to be easier and less costly to apply and maintain over time with less frequent changes

How IFRS for SMEs works in practice

IFRS for SMEs contains simplified recognition and measurement requirements (based on historical IFRS standards) and includes limited accounting policy options, does not require the use of fair value measurement in some areas and contains limited disclosure requirements. Compared to full IFRS Accounting Standards, the requirements are less detailed and not designed to impose complex requirements for simple transactions,

IFRS for SMEs is developed and maintained by the IASB, who follows a formal due process involving stakeholder engagement, public consultation and exposure drafts when developing or amending the standard. Updates to IFRS for SMEs are generally made less frequently than updates to full IFRS Accounting Standards, which helps provide greater stability for preparers.

High-level comparison of IFRS for SMEs and full IFRS reporting frameworks

Area	IFRS for SMEs	Full IFRS Accounting Standards
Approach	Simplified accounting requirements with certain judgements and fair value requirements reduced	Often considered to be principles-based to allow for faithful representation of simple and complex transactions
International use	Used or permitted in many jurisdictions for eligible private entities	Widely adopted internationally across other jurisdictional capital markets
Global comparability	Designed for entities without public accountability, generally private and less complex entities	Designed to support international comparability

Illustrative approaches for measurement:

Asset/liability	IFRS for SMEs	IFRS Accounting Standards
Property, plant and equipment (e.g. land and buildings)	Generally measured using either a historical cost model or a revaluation model, adjusted for depreciation. Impairment assessments limited to reviewing indicators.	Generally measured using either a historical cost model or a revaluation model. Impairment assessments required in certain situations.
Inventories	Measured at the lower of cost and selling price less costs to complete and sell.	Measured at the lower of cost and net realisable value. Reversals of inventory write-downs may be permitted.
Intangible assets	Generally measured at cost less amortisation and impairment. Revaluation is not permitted.	Generally measured at historical cost less amortisation and impairment. Revaluation permitted only where an active market exists.
Goodwill	Goodwill is amortised over its useful life (default 10-year period).	Amortisation is prohibited and tests for impairment must be performed annually.
Financial instruments	Basic financial instruments are measured at amortised cost using the effective interest method. Complex financial instruments are measured at fair value through profit or loss.	Measured using amortised cost, fair value through OCI or profit/loss depending on classification. Certain assets are subject to expected credit loss requirements.
Leases (lessee)	Requirements for both finance and operating leases. Finance leases are recognised on balance sheet, while operating lease payments are recognised as an expense over the lease term.	For most leases, entities recognise a right-of-use asset and lease liability. No finance and operating lease distinction and single accounting model required for all leases.

Appendix 4 – Locally modified standards – Indicative approach

Consider locally modified standards

Locally modified standards could improve relevance for some New Zealand entities by allowing requirements to be adapted to domestic legal, regulatory and reporting settings. These possible benefits would need to be considered alongside the benefits of international alignment, including comparability, shared standard-setting infrastructure, and access to international guidance and implementation support.

For a small jurisdiction such as New Zealand, one possible approach could be to start with an established international or foreign framework and then consider targeted modifications where needed for New Zealand conditions. This appendix outlines, in broad terms, what that could involve.

Understanding the purpose of locally modified standards

The purpose of locally modified standards would be to adapt an established set of requirements, so they reflect New Zealand user needs and the local legal, regulatory and reporting environment. Depending on the design of the framework, modifications could affect recognition, measurement, presentation and disclosure requirements.

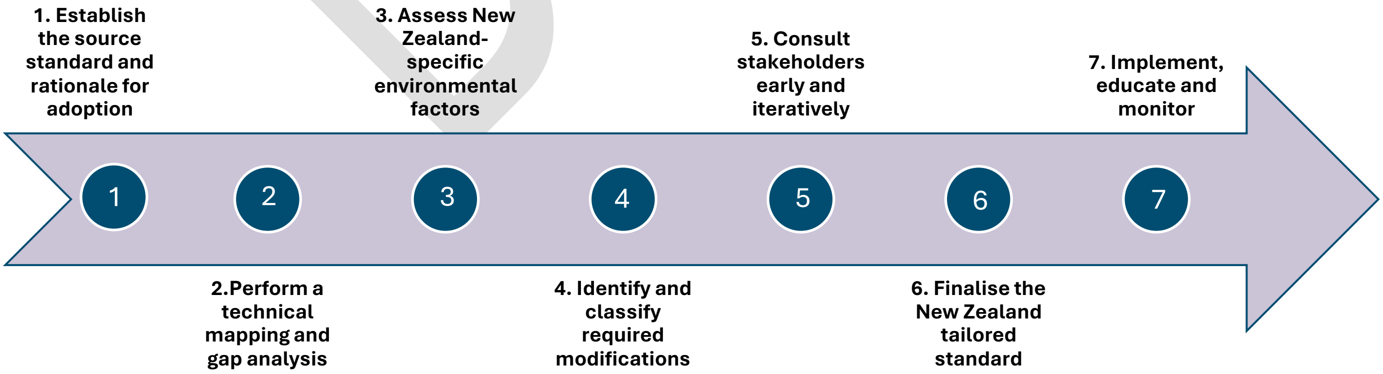
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

Outline of the possible process

This appendix outlines an indicative process that could be used if New Zealand were to develop accounting standards using another jurisdiction’s requirements as a starting point and then consider whether modifications are needed for the New Zealand context.

It is included to help stakeholders understand what a locally modified approach could involve. Any such approach would need to balance domestic relevance and operability with comparability, timeliness, and the ability to rely on international due process, guidance and implementation experience.

Indicative steps to follow when developing this framework



1. Establish the source standard and rationale for adoption

Based on an established understanding of the New Zealand environment and user needs, an initial step is to identify the standard/framework that would serve as the starting point and to explain why it is considered the most appropriate base. The source standard could be a general-purpose or special-purpose reporting framework and could differ depending on the sector or type of transaction, and would need to consider other potential implications with the source standard, such as copyright and maintenance processes.

Relevant considerations might include:

- Alignment with New Zealand's environmental factors and its size, scale and complexity;
- The maturity, credibility, and stability of the source jurisdiction's standard;
- Global best practices and developments;
- Whether the source standard addresses the reporting issue more comprehensively than existing NZ standards; i.e. simplified standards and easier recognition and measurement principles;
- Whether there are any copyright, development, maintenance, comparability and transition challenges.

2. Perform a technical mapping and gap analysis

A further step would be to understand the content of the source standard and identify where modification may be needed for New Zealand. This could be analysed through a gap analysis. Activities might include:

- Mapping each section of the source standard to existing NZ standards or frameworks;
- Identifying conceptual differences with the objective of the NZ Accounting Standards Framework;
- Assessing terminology differences (e.g., references to foreign regulators, legal constructs, or sector structures); and
- Identifying areas where the source standard presumes institutional arrangements which do not exist in New Zealand.

3. Assess New Zealand-specific environmental factors

The next step would be to consider which aspects of the New Zealand environment may warrant tailoring. Indicative factors might include:

- **Legal and regulatory context:** Companies Act, Financial Markets Conduct Act, Charities Act, Crown Entities Act.
- **Public sector structure:** Distinctive features of the Crown, local government, Māori entities, and mixed-ownership models.
- **Economic characteristics:** Size of capital markets, prevalence of small-to-medium sized enterprises, cooperative structures, iwi organisations.
- **User needs:** Investors, donors, funders, public accountability requirements.
- **Existing NZ reporting tiers:** Whether the standard must be adapted for multi-tier reporting.

4. Identify and classify required modifications

The nature and extent of any changes to the source standard would then need to be considered. Possible categories of modification could include:

- **Editorial changes:** Terminology, references to NZ law, definitions.
- **Scope adjustments:** Applicability to NZ reporting tiers and sectors or to allow for more cost-effective reporting.
- **Recognition and measurement changes:** Necessary to allow for simplification, maintain relevance or coherence with other NZ reporting frameworks or to allow for more cost-effective reporting.
- **Disclosure modifications:** Additional or reduced disclosures to reflect NZ user needs or to allow for more cost-effective reporting.

- **Transitional provisions:** Tailored effective dates or reliefs for NZ entities or to allow for more cost-effective reporting.

Any modifications would need to be supported by a clear rationale, including why a change is considered necessary to maintain relevance, coherence or operability in New Zealand. A key consideration would be whether any change improves cost-effectiveness without undermining the decision-usefulness of information for users of financial statements. These modifications will also keep simplification in mind.

Focus on key considerations

In considering whether a source standard should be modified for New Zealand, the main questions are likely to be whether the requirements fit New Zealand law and institutions, reflect the needs of New Zealand users, are proportionate to the size and complexity of affected entities, and remain sufficiently aligned with international practice where comparability is important.

These considerations could apply across recognition, measurement, presentation and disclosure. They could also include whether the requirements are practical to apply in New Zealand, whether suitable data and systems are available, and whether any change would improve cost-effectiveness without reducing the usefulness of the information provided.

Overarching assessment principles
The following indicative New Zealand specific considerations could be asked to assess whether any requirements should be modified:

- ***User-needs alignment*** – *Does the requirement provide information that primary users of NZ financial statements need? Are the information needs of NZ users (investors, creditors, iwi/Māori entities, public sector stakeholders, NFP donors) different from those assumed in the foreign standard?*
- ***Cost–benefit proportionality*** – *Are compliance costs reasonable relative to the benefits for NZ users? Do the requirements suit the size and nature of small and medium entities within NZ, or would smaller entities face disproportionate burdens?*
- ***Domestic legal and regulatory fit*** – *Does the requirement align with NZ legislation, or are there conflicts with NZ-specific regulatory definitions (e.g., public accountability, large entity thresholds)?*
- ***International harmonisation*** – *Would modifying the requirement undermine comparability with international entities where this is considered valuable for those users of financial statements? Is the modification necessary despite reduced comparability?*
- ***Climate-related and non-financial reporting integration –*** *Does the requirements create any conflicts with other NZ reporting frameworks (climate-related disclosure framework)?*

Criteria for modifying *Recognition* requirements
Recognition criteria determine **whether** an item appears in the financial statements. The following indicative questions could be asked to assess whether recognition requirements should be modified:

- ***Economic substance in NZ Context*** – *Does the recognition requirements reflect NZ economic conditions (e.g., prevalence of small entities, Māori land trusts, cooperatives)? Are NZ-specific transactions sufficiently captured?*
- ***Materiality and Practicality*** – *Would recognition rules create immaterial or misleading results for NZ entities? Is the recognition test too complex for smaller entities?*
- ***Faithful Representation*** – *Would applying the recognition requirements distort NZ-specific arrangements (e.g., revenue recognition for NFP grants)?*

Criteria for modifying *Measurement* requirements

Measurement requirements determine how items are valued. The following indicative questions could be asked to assess whether measurement requirements should be modified: - ***Availability of Reliable NZ-Specific Inputs*** *– Are inputs readily available in NZ markets to allow for the measurement requirements to be practical? Do thin or illiquid NZ markets make measurement models impractical?* - ***Cost Burden*** *– Does the measurement basis impose excessive valuation costs (e.g., annual revaluations for small entities)?* - ***Relevance to NZ Users*** *– Would a simpler measurement basis (e.g., cost instead of fair value) still meet user needs?*
Criteria for modifying *Presentation* requirements Presentation determines how information is structured and displayed. The following indicative questions could be asked to assess whether presentation requirements should be modified: - ***Compatibility with NZ reporting practices*** *– Does the presentation requirements impose additional costs to NZ entities?* - ***Understandability for NZ users*** *– Would NZ users find the presentation requirements intuitive and useful?* - ***New Zealand applicability*** *– Do presentation requirements designed for for-profit capital markets make sense for New Zealand entities to report?*
Criteria for modifying *Disclosure* requirements Disclosure requirements provide additional supplementary information to support users' decision-making. The following indicative questions could be asked to assess whether disclosure requirements should be modified: - ***User relevance in NZ*** *– Do NZ users need the level of granularity required by the disclosure requirements?* - ***Avoiding boilerplate overload*** *– Would the disclosure requirement lead to generic, low-value statements?* - ***New Zealand specific considerations*** *– Should disclosures reflect NZ's context (e.g., stewardship of taonga assets, tikanga-based governance)?*

---

5. Consult stakeholders early and iteratively

Stakeholder input would be an important part of any locally modified approach. For example, a domestic exposure draft of proposed requirements could be developed and tested with groups such as:

- Relevant preparers (corporates, small-to-medium enterprises, public sector entities, not-for-profit entities);
- Auditors and professional bodies;
- Investors, analysts, and public sector users;
- Sector-specific groups; and
- Regulators and other stakeholders (Financial Markets Authority, Treasury, Department of Internal Affairs, The Audit Office).

6. Finalise the New Zealand-tailored standard

Following consultation, the standard could then be finalised in a way that remains faithful to the source framework while being operable in New Zealand. This could involve steps such as:

- Incorporating stakeholder feedback;
- Ensure internal consistency with the New Zealand Accounting Standards Framework;

- Conduct a final legal and technical review;
- Prepare 'Basis for Conclusions' explaining why the source standard was chosen, what modifications were made and why and how NZ-specific factors were addressed; and
- Approve through the NZASB's formal due-process steps.

7. Implement, educate and monitor

If a locally modified standard were introduced, implementation support and ongoing monitoring would also be important. Depending on the nature of the standard and the range of affected entities, this might include:

- Publish implementation guidance, FAQs, and illustrative examples;
- Conduct outreach sessions and webinars;
- Monitor early application issues; and
- Establish a post-implementation review timeline (typically 3-5 years after the effective date of the requirements).

Consider the potential advantages

Better flexibility to domestic user needs	A locally modified approach could allow greater flexibility to respond to New Zealand user needs, including where targeted simplifications or additional disclosures are considered appropriate.
Tailored to New Zealand's economic characteristics	Locally modified standards could better reflect the size, structure and reporting context of New Zealand entities, including small and medium-sized entities, cooperatives and public benefit entities, which could lower overall costs within in the system.
Stronger alignment with New Zealand's legal and institutional environment	Locally modified standards could be aligned more closely with New Zealand legislation and institutional arrangements. This may reduce ambiguity where source standards refer to legal or regulatory concepts that do not apply in New Zealand.
Enhanced sovereignty and public trust	Local development could increase stakeholder input into standard-setting and may support confidence that standards reflect New Zealand circumstances and priorities.

Consider the potential disadvantages

Reduced international comparability	Locally modified standards may reduce comparability with entities applying international frameworks. This may matter more where users place weight on international comparability, credibility or access to international guidance and practice.
Higher development and maintenance costs	Developing and maintaining locally modified standards would require technical analysis, consultation, drafting and ongoing review. Compared with direct adoption of international standards, this would increase demands on standard-setting resources. It may also take longer to consider, adapt and issue updated requirements in New Zealand.
System and infrastructure challenges	If local requirements diverge from widely used international frameworks, entities and service providers may need additional guidance, training or system changes. Divergence may also reduce the ability to use common international tools or practices without adaptation.

Slower adoption of global best practice	International standard setters undertake research, consultation, due process and post-implementation activity across multiple jurisdictions. A locally modified approach may reduce the extent to which New Zealand can rely directly on that infrastructure.
Risk of over-tailoring	Tailoring can improve local fit, but additional modifications can also increase complexity and make standards harder to maintain over time.

Appendix 5 – Tier 2 for-profit entities: framework options analysis

Note:
Refer to the overview slides for this paper on the next page which contains the detailed framework option analysis.

Tier 2 for-profit alternative framework key criteria analysis

For profit sector

Tier 2 population – what we currently know

Research conducted in 2016/17 indicated an estimated ~2,246 Tier 2 for-profit entities. This was derived from multiple datasets (Stats NZ, FMA, Companies Office, OAG, etc - report)

These entities comprise only a small share of NZ businesses (~1.5%), but are typically larger entities with GAAP reporting obligations

The population is heterogeneous, spanning:

- large privately owned companies without public accountability,
- overseas companies operating in NZ,
- entities with multiple shareholders, and
- smaller for-profit public sector entities

Key limitation – There is no centralised register → population size, composition, and voluntary use are uncertain, particularly for entities opting into Tier 2.

This limited visibility constrains how confidently we can assess whether the current Tier 2 framework remains proportionate and fit for purpose.

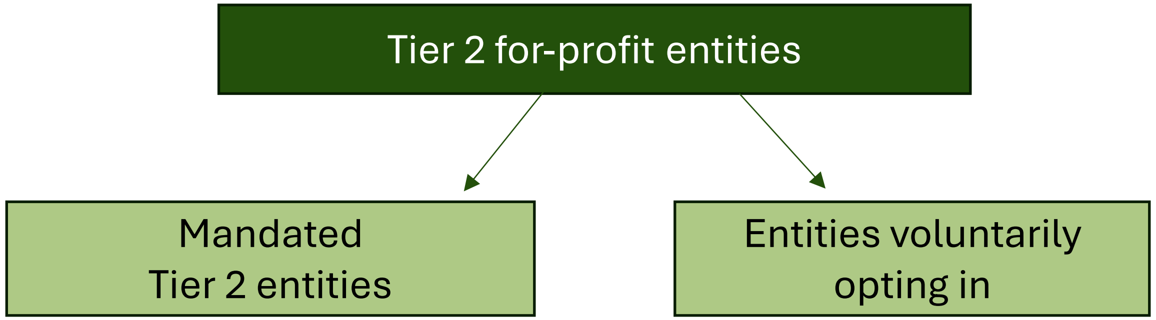
Understanding who is in Tier 2

Not all tier 2 entities have filing obligations – we therefore do not have visibility of the population size, scale, and complexity of all the tier 2 for-profit entities using our standards.

We understand this tier comprises two groups:

- those legally required to report under Tier 2 (“mandated entities”); and
- those that voluntarily opt in (reasons may vary - including audit, financing requirements, etc.). These entities are not the primary focus of the legislative framework (i.e. our mandate) but they form part of the broader financial reporting system (i.e. entities that apply our standards). It remains uncertain whether the current framework appropriately meets their needs.

A key question is whether we should consider the appropriateness of the tier 2 framework to suit the needs of the mandated entities only or both mandated entities and those that voluntarily opt into tier 2 (refer to slide 22 where this is further considered).



Note: The Tier 2 for-profit analysis in slides 11-15 and 17-21 , as well as appendix 1-2, focuses on mandated Tier 2 entities. Slide 22 and questions 8-9 focus on entities that voluntarily opt in.

Mandated Tier 2 entities

The minimum legislative threshold as per the Financial Reporting Act 2013 and Companies Act 1993 (noting that other legislation may also impose GAAP compliant financial reporting obligations) place the following entities in the mandated Tier 2 category:

- companies with over **$66m in assets or $33m in revenue;**
- overseas companies with over **$22m in assets or $11m in revenue;** and
- companies with **more than 10 shareholders.**

These mandated Tier 2 entities:

- Meet a minimum **economic scale** set by legislation
- May have **significant creditors, employees and stakeholders**
- Operate at a scale where a credible, consistent, and **trusted financial reporting framework is essential**.

These characteristics indicate that mandated Tier 2 for-profit entities are **economically significant** and warrant a **robust and credible financial reporting framework**.

The legislative requirements to apply XRB Accounting Standards is set through primary legislation. Refer to *Appendix 1* for more details on these requirements.

Framework currently applied by Tier 2 for-profit entities:
Tier 2 for-profit entities currently apply NZ IFRS with reduced disclosure requirements (NZ IFRS with RDR). This is an IFRS principles-based framework that retains full recognition and measurement requirements while allowing reduced disclosure requirements, supporting a balance between comparability with Tier 1 and proportionality for Tier 2 entities.

User focus – Tier 2 for-profit entities

Primary users

- Lenders and other creditors (including banks and debt providers)
- Owners/shareholders (often closely held or not publicly traded)
- Regulators and other oversight bodies

Nature of user needs

- Assess ability to meet debt obligations, cash flow sustainability, and financial resilience
- Understand financial performance and position to support capital allocation decisions
- Obtain sufficiently comparable and credible information, while recognising cost constraints

Implications for Tier 2 reporting

- Reduced emphasis on public capital market comparability relative to Tier 1
- Greater focus on decision-usefulness for creditors and private investors
- Balance required between:
    - simplicity and cost of preparation; and
    - maintaining faithful representation and credibility of information

Key challenges with the current Tier 2 design

As part of the review of the Tier 2 for-profit reporting standards framework, staff have identified challenges associated with the current standards. These challenges reflect feedback from stakeholders, staff experience, and observed pressures within the reporting ecosystem. They help to frame why the standards framework is being reconsidered, while also considering how the issues will be best addressed.

1. Complexity of requirements

- Technically complex and resource-intensive to apply.
- Transitioning from non-GAAP reporting to full IFRS recognition and measurement is challenging.
- Complexity drive challenges in both application and understanding.

2. Cost of change and remaining current

- Ongoing changes creates pressure on preparers and the broader ecosystem.
- The challenge is not only change itself, but the ability of preparers and users to remain current through ongoing investment in education and capability.

3. Spectrum of entities, usefulness and relevance of reporting

- It is unclear whether Tier 2 reporting provides information that meets user needs.
- Limited visibility over the Tier 2 population constrains the ability to assess usefulness.
- This raises questions about the relevance and proportionality of the current framework.

Mandated Tier 2 entities options explored

NZ IFRS with RDR (*as noted on slide 7. Included again on this slide for comparison purposes)* - an IFRS principles-based framework that retains full recognition and measurement requirements while allowing reduced disclosure requirements, supporting a balance between comparability with Tier 1 and proportionality for Tier 2 entities. IFRS is used in 161 jurisdictions.

A: IFRS with RDR

B: IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

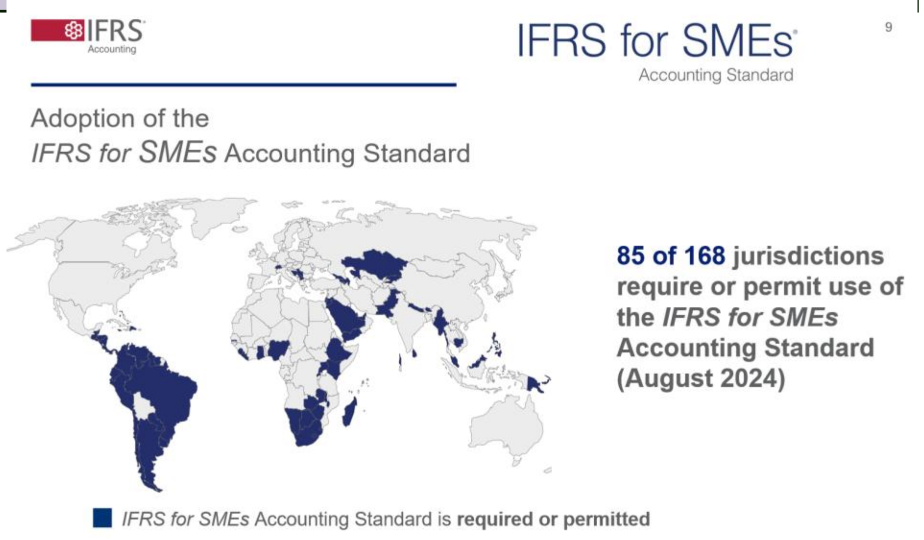
C: IFRS for Small and Medium-sized entities (IFRS for SMEs)

D: Locally modified

E: US GAAP

IFRS 19 - permits eligible entities that apply full IFRS recognition and measurement requirements a reduced set of disclosures (similar to NZ IFRS with RDR). IFRS 19 may not provide meaningful additional simplification compared with the current NZ IFRS RDR, refer to the IFRS 19 position statement on our website for further information. There are currently no jurisdictional use statistics for IFRS 19.

IFRS for SMEs is a simplified, self-contained accounting standard designed for small and medium-sized entities, reducing complexity and disclosure requirements compared with full IFRS Accounting Standards. This framework is used in 85 jurisdictions.



US GAAP - a single rules-based comprehensive framework with limited simplification for private entities through targeted alternatives, rather than a separate reduced or simplified reporting framework. This framework is primarily used in one jurisdiction.

To note - *The framework options presented include IFRS-based approaches, which should be considered in light of the sector analysis—particularly the implications for a potential sector-neutral model, and whether an IFRS-based framework can appropriately meet the differing reporting objectives, user needs, and accountability requirements across sectors.*

Mandated Tier 2 entities options explored

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 incl. maintenance of the standards (i.e. how often are changes expected) (preparer focus)

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

Move between tiers - Interoperability with Tier 1 (accounting and workforce)

What the analysis is telling us

The summary assessment of each framework option against the key criteria and red-amber-green (RAG) analysis is included below to highlight the key drivers of each option.

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**

Tier 2 For-profit

Detail supporting the options assessment

Option A – IFRS RDR

Pros	• NZASB's ability and control to consider proportionality through reduced disclosure burden • Consistent recognition and measurement to Tier 1 • Comparable to Tier 1 entities providing international credibility and investor and user confidence • Facilitates consolidation across mixed-tier groups • Lower costs when moving between tiers • Established domestic workforce capability and global talent pool • Globally informed standard-setting process • No transition costs and market disruption • Access to IFRS-ready accounting systems • Extensive guidance and support • Future-proofing
Cons	• Recognition and measurement requirements may exceed user needs • Reduced transparency for some users • Copyright restrictions – mandatory full-suite adoption • Resource strain during change.

Option A – IFRS with RDR

Criteria	Analysis
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Retaining NZ IFRS RDR supports workforce interoperability as there is a reduced need for separate training and capability streams.
Technical fitness	Fulsome framework with 43 NZ IFRS standards providing clear principles for accounting of most complex transactions. Development of these standards takes into account global users and best practices. However, recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	XRB has ability to reduced disclosures to simplify. Further simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned.
International alignment	Supports access to capital markets by ensuring Tier 2 entities continue to report under an internationally recognised framework (used in 161 jurisdictions), even with reduced disclosures are retained. Recognition and measurement may be harmonised with Aus with disclosure focused on the NZ perspective while also considering the AASB's approach.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. The XRB has the flexibility to consider which prescribed IFRS disclosures are retained.
Ecosystem	Well-established IFRS focused ecosystem supported by workforce, auditors and technology. Ongoing training through accounting firms, standard setters and educational institution. Access to global talent pool ensures work force mobility and sustained capability.
Transition costs	No change is required, so no additional costs would arise. Existing software and systems already support the current IFRS-aligned environment.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes.

Strong fit / low concern
Mixed fit / trade-off concerns
Significant trade-off concerns

Option B – IFRS 19

Pros	• International consistency and comparability • A single, centralised disclosure standard • Reduced domestic standard-setting effort.
Cons	• Restrictive eligibility as it applies to subsidiaries without public accountability • Less control and flexibility for NZASB to tailor disclosures to be fit-for-purpose • Potential increase in ASF complexity • Transition costs • Risk of disclosure misalignment with local user needs.

The IFRS 19 pros and cons below are in addition to those for NZ IFRS RDR included under option A, except for the pros highlighted in blue on the previous slide.

Option B - IFRS 19

Criteria	Analysis
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Supports workforce interoperability as there is a reduced need for separate training and capability streams.
Technical fitness	Will be a fulsome framework with 44 NZ IFRS standards providing clear principles for accounting of most complex transactions. However, recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	Reduced disclosures are set by the IASB. Simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned.
International alignment	Supports access to capital markets by ensuring Tier 2 entities continue to report under an internationally recognised framework (used in 161 jurisdictions), even with reduced disclosures are retained. Recognition and measurement may be harmonised with Aus with disclosure prescribed by IFRS 19 which may or may not be aligned with Aus in all instances.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards.
Ecosystem	Well-established IFRS focused ecosystem with ongoing training. Access to global talent pool ensures work force mobility and sustained capability. Some disruption to align disclosures with IFRS 19 requirements.
Transition costs	Some disclosure changes may be required. Existing software and systems already support the current IFRS-aligned environment for recognition and measurement but may require some changes for disclosure.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes.

- Strong fit / low concern
- Mixed fit / trade-off concerns
- Significant trade-off concerns

Option C – IFRS for SMEs

Pros	• Substantially reduced complexity balancing cost-benefit for smaller entities • Stand-alone, self-contained standard • Reduced judgement and estimation burden • Internationally recognised and applied • Lower ongoing change (5 year revision cycle) and implementation burden
Cons	• Materially different recognition and measurement requirements • Mixed-tier group consolidation complexity • Reduced comparability with NZ Tier 1 entities • Limited suitability for larger or more complex Tier 2 entities • Risk of misalignment with user expectations • Reduced harmonisation with Australia • Transition costs and system changes • ASF complexity and fragmentation • Limited NZ workforce capability and expertise • Limits workforce mobility

Option C – IFRS for SMEs

Criteria	Analysis
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles. Does not supports workforce interoperability as separate training will be required.
Technical fitness	Fulsome framework providing simplified recognition and measurement requirements for accounting of most transactions. However, may not be able to deal with some complex transactions.
Simplification	Simplified recognition and measurement requirements. Further simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption.
International alignment	Internationally recognised as required or permitted in 85 jurisdictions. However, it may not provide sufficient information to gain access to capital markets.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards.
Ecosystem	IFRS for SMEs adoption would significantly disrupt the current ecosystem, requiring retraining and system changes. It would limit workforce mobility given the current talent pipeline is aligned with full IFRS.
Transition costs	Cost and changes will be required. Existing software and systems implemented may not support the IFRS for SMEs environment. The XRB and wider limited New Zealand workforce do not currently have sufficient IFRS for SMEs expertise to support adoption.
Ongoing costs	IFRS for SMEs is updated infrequently through periodic comprehensive reviews (6-10 year intervals) rather than continuous amendments, which indicates relatively low ongoing costs and change burden compared with full IFRS.

- Strong fit / low concern
- Mixed fit / trade-off concerns
- Significant trade-off concerns

Option D – Locally modified NZ Standards

Pros	• Full control over standard-setting • Tailoring to NZ circumstances • Greater responsiveness to local issues • Alignment with NZ regulatory and policy settings
Cons	• Limited XRB capacity and lack of global technical reach would impede the development of credible, internationally relevant local standards • Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment • Risk of unintended consequences such as lack of coherence and complexity within the suite • Loss of international comparability and credibility, likely to result in loss of capital investment • High development and maintenance costs • Workforce capability and mobility risk • Loss of harmonisation with Aus • Absence of readily available IT software

Option D – Locally modified NZ Standards

Criteria	Analysis
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required due to the development of a distinct domestic framework separate from the IFRS-based Tier 1 for-profit framework.
Technical fitness	Significant time and resource requirement to create a coherent suite of standards that is capable of dealing with most complex transactions. Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Simplification	Simplification is possible - there are other jurisdictional frameworks we can leverage from, and tailor requirements to reduce complexity in the standards.
International alignment	Would not be recognised internationally and unlikely to be used outside New Zealand, limiting comparability and potentially restricting access to global capital markets. Australia: not aligned
Local relevance	Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	This can be managed locally but some costs and changes will be required. Similarly existing software and systems implemented may require some change. XRB and wider NZ workforce capability implications due to risk unintended consequences.
Ongoing costs	Changes to locally modified standards can be contained. There is a risk that evolving arrangements are not timeously addressed in standard setting.

- Strong fit / low concern
- Mixed fit / trade-off concerns
- Significant trade-off concerns

Option E – US GAAP

Pros	• Alignment with the world's largest capital market • More prescriptive (rule-based) standards with detailed guidance • Reduced judgement risk for preparers
Cons	• Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment • Loss of international comparability outside the US • Not developed for NZ entities • Equal or more ongoing compliance costs resulting from prescriptive accounting requirements • New Zealand is unable to influence developments • Loss of harmonisation with Aus

Option E – US GAAP

Criteria	Analysis
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required for adoption of US GAAP.
Technical fitness	Over 90 Accounting Standard Codifications that are rule based and capable of dealing with most complex transactions.
Simplification	Simplification option: expected to have similar limitations like IFRS
International alignment	US GAAP is internationally recognised but used in only one primary jurisdiction (the US), though it may be permitted for SEC issuers in some other jurisdictions. Australia: not aligned
Local relevance	New Zealand would have no ability to influence the standard-setting process within the US, this means there will be no local inputs into the development of these standards.
Ecosystem	US GAAP adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	Significant cost and changes will be required. Existing software and systems implemented do not support the US GAAP environment. XRB and wider NZ workforce does not currently have sufficient US GAAP experience to support adoption.
Ongoing costs	With transactions evolving, accounting standards evolve which results in regular changes.

- Strong fit / low concern
- Mixed fit / trade-off concerns
- Significant trade-off concerns

Appendix 1 - Legislative requirements to apply XRB accounting standards

Primary legislation determines 'who' is in scope and required to apply the ASF and XRB accounting standards. Below are the legislative requirements to apply XRB accounting standards and the relevant parameters (this list is not exhaustive):

Primary legislation	Legislative requirements
Financial Reporting Act 2013 (FRA) - Section 9,12 & 45	• Obligation to comply with GAAP when another Act requires financial reporting – this section ensures that where the Companies Act or FMC Act (applicable to Tier 1 entities) requires financial statements, they must follow XRB standards (Section 9) • XRB mandate to issue financial reporting standards (Section 12) • Defines 'large' (over $66m assets or $33m revenue, for last two accounting period), and, defines 'large overseas company' (over $22m assets or $11m revenue for last 2 accounting periods) (Section 45)
Companies Act(Co Act) 1993 - Sections 200-202	The following types of companies are required to comply with GAAP: (a) large company; (b) public entity; (c) large overseas company; (d) company with 10 or more shareholders unless opted out of compliance with the provision; and (e) company with fewer than 10 shareholders but opted into compliance with the provision.
Other legislation requiring GAAP compliant financial reporting	We note that several other Acts also impose GAAP reporting obligations, for example – Building Societies Act 1965, Energy Companies Act 1992, Incorporated Societies Act 2022, Māori Community Development Act 1962, etc. (this list is not exhaustive).