Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	6 August 2026
Subject:	**Analysis of mixed group issues – Accounting Standards Framework review**
Date:	23 July 2026
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☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this paper is to seek Board agreement that mixed groups should be included as a distinct topic in the ASF Discussion Paper, together with the proposed framing of the issue and the questions on which stakeholder feedback should be sought.

2. The paper explains how mixed groups arise under the current ASF, the challenges they may create, and their interaction with broader ASF design options. It also identifies areas where stakeholder feedback could assist in assessing the prevalence, significance, and implications of mixed-group issues.

Recommendations

3. The Board is recommended to:

   (a) provide FEEDBACK on the analysis of mixed-group issues and their interaction with broader ASF design choices;

   (b) AGREE that mixed groups should be included as a distinct topic in the ASF Discussion Paper;

   (c) AGREE with the proposed framing of mixed-group issues for consultation;

   (d) provide FEEDBACK on the proposed discussion paper wording and consultation questions and areas where stakeholder feedback should be sought.

Background

4. For detail on the background and context of the ASF review, please see the background to the ASF review memo at agenda item 6.1a. This memo contains the following contextual information:

   Memo contents

   (a) XRB mandate and purpose;

   (b) What is the ASF;

(c) Current ASF structure and how it works;

(d) Why the ASF is being reviewed now;

(e) Purpose and scope of the review;

(f) Background and financial reporting landscape;

(g) Balancing costs and benefits of change;

(h) Approach to the review;

(i) Options analysis;

(j) Overall project next steps; and

(k) Feedback sought from the Board.

Appendices

(l) Appendix 1: ASF sectors definitions and classification guidance

(m) Appendix 2: Legislative requirements to apply XRB accounting standards

(n) Appendix 3: Section 31 and 32 of the Financial Reporting Act 2013.

What are mixed groups?

5. The Accounting Standards Framework (ASF) aims to balance the costs and benefits of reporting by differentiating reporting requirements based on an entity's sector and tier classification.

6. Entities are first classified according to their sector and then assigned to a reporting tier based on size and/or public accountability. Those classifications then determine the reporting requirements that apply to the entity.

7. This is displayed in the table below.

Sector	Classification basis	Tiers and standards framework
For-profit	Entity is not a PBE	Tier 1 - NZ International Financial Reporting Standards (NZ IFRS) Tier 2 – NZ IFRS reduced disclosure regime
PBE sector	Meets the PBE definition Must then classify as a public sector PBE or a not-for-profit PBE	Tier 1 - PBE Standards based on International Public Sector Accounting Standards (IPSAS) Tier 2 – PBE Standards reduced disclosure regime Tier 3 and Tier 4 – domestic Tier 3 and Tier 4 standards (simplified requirements)

8. As sector and tier classifications are determined at the individual reporting-entity level, those entities that are controlled by a parent entity and are part of a wider reporting group may be subject to different reporting requirements than the parent/group.

9. This can result in complexity when a parent entity who is subject to NZ IFRS or PBE Standards, must prepare group/consolidated financial statements (as outlined in NZ IFRS 10 *Consolidated Financial Statements* and PBE IPSAS 35 *Consolidated Financial Statements*, as well as the Tier 3 Standard which refers to PBE IPSAS 35).

10. Consolidated financial statements present the entire reporting group as a single economic entity and must be prepared using a common reporting framework (i.e. either NZ IFRS or PBE Standards, depending on the sector classification of the parent/group). Accordingly, the

financial statements of the individual controlled entities must be brought together using a reporting framework that may be different to what they prepared their financial statements in line with.

11. This consolidation process and the financial statements produced can present several challenges for preparers, auditors, and users, and is the source of what this paper will refer to as mixed group issues.

12. In the table below, we detail the different types of mixed groups.

Types of mixed groups	Why is it a mixed group	Core problem
Mixed-sector groups	Parent and controlled entities are classified in different sectors	Different reporting objectives, frameworks, concepts and requirements
Mixed-tier groups	Entities in the same group qualify for different tiers	Different level of detail, disclosure and information capture
Cross-border mixed groups	Overseas subsidiaries apply overseas GAAP, IFRS variants or special purpose reporting	Conversion into NZ GAAP group reporting may be required
Other mixed groups	Entities have different statutory reporting obligations	Some entities within a reporting group may not be required to apply NZ GAAP and their accounting policies may differ to those required in XRB accounting standards.

Why do mixed groups arise?

13. Although mixed groups are largely a consequence of the ASF's multi-sector, multi-tier approach, they arise for a variety of reasons. Some arise directly from design features of the ASF, while others arise from the interaction of the ASF with statutory reporting requirements or reporting obligations outside New Zealand.

14. As noted in the background section, the entity level classification of the ASF is a primary driver of mixed groups. In the sections below we outline specific details of the other factors that may contribute to mixed groups, and provide examples of mixed group structures in New Zealand's reporting context.

Sector classification

15. Under the ASF, sector classification is determined primarily by the purpose and objectives of an individual reporting entity.

16. This means entities are classified based on their own characteristics and primary purpose, rather than automatically adopting the classification of the consolidated group that they form part of. For example, public sector entities that operate on a commercial basis may be classified as for-profit entities despite forming part of a wider public sector PBE reporting group. Or, a registered charity that conducts commercial activities in order to generate funds for the charitable activities of its ultimate owner may be classified as a for-profit entity.

17. Mixed-sector groups are therefore not merely a consequence of entity-level classification. They also reflect a deliberate design choice to prioritise classification based on the objectives and characteristics of individual entities, rather than group-level consistency. While this supports reporting requirements that reflect the circumstances of individual entities, it can result in entities with different sector classifications being brought together within the same reporting group, which requires effort on the parent entity's side when preparing the consolidated financial statements.

Tier classification

18. In addition to sector classification, entities are assigned reporting tiers based on size thresholds and public accountability, with different reporting requirements applying at each tier. For example:

    (a) Tier 1 entities apply full NZ IFRS (if they are for-profit entities) or full PBE Standards (if they are PBEs);

    (b) Tier 2 entities apply reduced disclosure regimes for either NZ IFRS (if they are for-profit entities) or PBE Standards (if they are PBEs); and

    (c) Tier 3 and 4 PBEs apply simplified locally developed XRB reporting requirements.

19. Entities within the same group may fall into different tiers, even if they are in the same sector. A Tier 1 PBE parent may, for example, control smaller PBEs that are eligible for Tier 2, Tier 3 or Tier 4 reporting.

20. In these circumstances, entities within the same group may be applying different reporting requirements despite being in the same sector. While the underlying accounting framework may be similar, the recognition, measurement, disclosure and information available from group entities may differ significantly, particularly where Tier 3 or Tier 4 PBE reporting requirements are applied.

Other reporting requirements

21. Mixed-group issues are also not driven solely by sector and tier differences within the ASF. They are also driven by statutory requirements that require the preparation of individual financial statements without regard to wider group reporting – noting that some legislative regimes such as the Companies Act 1993 provide some relief, while others do not. They may also arise because entities within the same reporting group are subject to different statutory or cross-border reporting obligations (i.e. may not be required to apply NZ GAAP, may instead produce special purpose reports or prepare financial statements in accordance with another jurisdiction's requirements).

22. This is important to recognise as some mixed-group issues may continue to arise even if sector or tier differences are reduced or removed as part of a redesign of the ASF. Although the interaction of the ASF with statutory and cross-border reporting requirements is relevant to mixed-group issues, is it largely outside the direct influence of the XRB. Accordingly, the focus of this paper is primarily on aspects of mixed-group complexity arising from the design and operation of the ASF.

Where do mixed groups arise?

23. Mixed groups are a natural consequence of the current ASF and are likely to arise wherever reporting groups contain entities with different sector classifications and reporting tiers. As a result, mixed groups are not unusual within the reporting environment.

24. The examples below demonstrate where mixed-group structures arise within the current reporting landscape. Note that this list is not intended to be exhaustive.

Sector of parent and group	Examples of mixed-group structure (not exhaustive)

Public sector PBE	• The NZ Government reporting group (PBE) contains for-profit public sector entities, such as:
	  ○ state-owned enterprises
	  ○ and statutory entities undertaking commercial activities
	• A council (PBE) may have some council-controlled organisations are for-profit entities.

Not-for-profit PBE	• A registered charity that is a PBE which controls a for-profit entity, e.g.:
	  ○ another registered charity with commercial activities; or
	  ○ a charity-owned trading company
	• A registered charity that is a PBE in Tier 1 of Tier 2, which controls other registered charities in Tier 3 or Tier 4
	• An Iwi organisation that has for-profit subsidiaries

For-profit	• A for-profit company may have a registered charity subsidiary that is a PBE • NZ companies with foreign subsidiaries (e.g. an iwi-owned trading company) • Groups containing different statutory reporting requirements, e.g. a 'large' company required to comply with GAAP and applying NZ IFRS may have non-large subsidiaries that apply special purpose reporting

25. Of particular note are public sector PBE groups that include for-profit public sector entities. There are approximately 200 for-profit public sector entities, across Tier 1 and Tier 2, who apply NZ IFRS but are then often consolidated into a PBE group, i.e. into consolidated financial statements prepared under PBE Standards. Many of these for-profit public sector entities are very economically significant, or are publicly accountable, in that they issue equity or debt instruments, or hold assets in a fiduciary capacity for a broad group of outsiders.

26. In terms of the other mixed group structures, there can be a broad range. We understand that mixed-purpose organisational structures are common in some parts of the reporting landscape, including public sector groups, charities with trading subsidiaries, and iwi-related structures. These groups may be a subset of the entire reporting system but in many cases may also be economically significant.

What challenges do mixed groups create?

27. Mixed groups do not necessarily create challenges simply because entities within a reporting group are subject to different reporting requirements. The practical implications arise when those differences need to be accommodated within financial reporting, assurance processes or the interpretation of reporting outcomes.

28. The nature and significance of these challenges will depend on the source of the differences within the group. In some cases, the effects may be limited and mitigated through materiality considerations. In other circumstances, differences in reporting frameworks, reporting requirements or reporting objectives may create additional complexity.

29. The principal challenges associated with mixed groups can be considered across three areas:

(a) consolidation and financial reporting;

(b) audit and assurance; and

(c) user interpretation and reporting outcomes.

Consolidation challenges

30. Mixed-group challenges commonly arise when a reporting group prepares consolidated financial statements. While consolidation does not itself create mixed groups, it is the process through which differences between entities within a group must ultimately be reconciled into a single set of financial statements.

31. Where entities within a group apply different reporting requirements due to being in different sectors or tiers, information prepared at the individual entity level may need to be aligned or converted before it can be included in the consolidated financial statements. This may involve differences in:

(a) recognition and measurement requirements;

(b) accounting policies;

(c) disclosures; and

(d) information required for group reporting that is not otherwise produced by an entity within the group.

32. For example, when a subsidiary prepares under a different suite of standards or lower tier compared to the parent, the parent may need to:

(a) identify accounting policy differences;

(b) determine whether recognition and measurement adjustments are required;

(c) obtain information not captured in the subsidiary's own reporting system;

(d) prepare consolidation adjustments outside the subsidiary ledger;

(e) document the basis for those adjustments;

(f) assess materiality at both subsidiary and group level;

(g) consider whether disclosures in the group financial statements need information that the subsidiary has not prepared; and

(h) create and maintain controls so the process can be repeated in future periods.

33. The nature of these challenges varies depending on the source of the differences within the group. Where differences arise from sector classification, entities may be applying different reporting frameworks with different reporting objectives, requirements, accounting policies and guidance. This can create complexity because:

(a) different frameworks may result in different recognition, measurement, presentation or disclosure outcomes; and

(b) different frameworks may be designed to address different transactions and accountability requirements. For example, PBE Standards contain requirements relating to matters such as non-exchange transactions and service performance reporting that are not addressed in the same way within NZ IFRS.

34. See the Appendix 2 (Sources of mixed-sector complexity) for more detail.

35. Where differences arise from tier classification, the challenges are often less about differing reporting concepts and more about level of reporting detail. Lower-tier reporting requirements are designed to reduce reporting costs for smaller entities and may require less detailed consideration or less detailed information than higher-tier requirements. Consequently, a parent entity may require information for group reporting purposes that a lower-tier subsidiary would not otherwise consider or prepare.

36. However, in PBE groups, there are also situations where a controlled entity in Tier 3 or 4 would apply different accounting policies compared to a parent in a higher tier, requiring consolidation adjustments in the group financial statements. For example, a Tier 3 PBE may account for its investment in shares at cost, as permitted under the Tier 3 Standard – but if its parent is a Tier 1 or Tier 2 PBE, the parent would be required by PBE Standards to account for these shares at fair value when preparing consolidated financial statements. Also, Tier 4 PBEs apply cash accounting under the Tier 4 Standard, so a Tier 4 PBE may not include all assets and liabilities in its financial statements – but if its parent is in a higher tier, the parent would need information on all the assets and liabilities of the Tier 4 PBE for the purpose of preparing consolidated financial statements (subject to materiality considerations).

37. In some circumstances, this may create pressure for lower-tier entities to voluntarily apply higher-tier requirements, or prepare additional information, to facilitate group reporting. While this may reduce group reporting complexity, it may also result in entities preparing information beyond what would otherwise be considered proportionate for their own reporting purposes.

38. Materiality may reduce the significance of some conversion adjustments or the need for additional information. However, where differences are material, the effort required to align information across a reporting group may increase the complexity and cost of preparing consolidated financial statements.

Audit and assurance challenges

39. Mixed-group issues may also create challenges at the audit and assurance stage. Where information prepared by a subsidiary requires adjustment or conversion for group reporting purposes, assurance activities may need to consider both the subsidiary's reporting basis and the adjustments made in preparing the consolidated financial statements. This can increase audit effort through additional documentation, review procedures and evidence requirements, including:

    (a) assessing systems and controls around consolidations and group-level adjustments;

    (b) additional work over conversion journals and group-level adjustments;

    (c) obtaining evidence for adjustments that are not reflected in subsidiary statutory financial statements;

    (d) considering whether subsidiary systems capture the information required for group reporting;

    (e) reviewing management’s judgement in identifying and quantifying framework conversion adjustments;

    (f) evaluating consistency of accounting policies across the group; and

    (g) potential implications for audit fees and reporting timetables.

40. This issue will be exacerbated where lower-tier entities are being incorporated into a Tier 1 group framework, and do not have systems in place to capture the additional information required at the group level.

User and reporting outcome challenges

41. Mixed-group issues may also affect the interpretation and usefulness of financial reporting outcomes. Where entities within a reporting group apply different reporting frameworks or reporting requirements, similar activities or transactions may be reported differently before consolidation.

42. The resulting challenges are not limited to the preparation of consolidated financial statements. Different reporting frameworks are often designed to meet different reporting objectives and accountability requirements, and therefore can affect the information needs of certain users. For example:

    (a) Entity-level users may want information about the specific subsidiary and its purpose/accountability setting.

    (b) Group-level users may want comparable, consolidated information prepared on a consistent basis.

    (c) In mixed-sector groups, those needs may not fully align because individual entities and the group may be accountable to different stakeholders.

43. This may create challenges for the different users of a reporting group when interpreting:

    (a) why similar transactions are reported differently at an individual entity level in comparison to group level;

    (b) why different information is presented by different entities within the same group; and

    (c) what information the consolidated financial statements are intended to convey.

44. These challenges relate directly to broader ASF considerations, including:

    (a) the overall usefulness of information provided to users of financial reports;

    (b) comparability between entities;

    (c) consistency of reporting outcomes; and

    (d) misalignment between reporting requirements and user needs.

Why does this matter for ASF design?

45. Mixed-group issues are ultimately influenced by several aspects of ASF design, including:

    (a) the number and nature of sectors and tiers and the related boundaries;

    (b) how sector classifications are determined;

    (c) the reporting frameworks applied to each sector and tier; and

    (d) the extent to which reporting requirements can be aligned across a reporting group.

46. As a result, the significance of mixed-group issues under any future ASF model will depend not only on the number of sectors within the framework, but also on how those sectors are defined and the reporting requirements that apply to them.

47. Below we have considered the impact of mixed groups on several sector options that are being considered as part of the ASF review. These options illustrate how the design of the ASF may impact the prevalence and significance of mixed group issues.

Two-sector model

Sector	Classification basis	Example of standards framework that may be applied
For-profit	Entity is not a PBE	NZ International Financial Reporting Standards (NZ IFRS)
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE	PBE Standards based on International Public Sector Accounting Standards (IPSAS) (unless eligible for Tier 3 or Tier 4)

48. Features of the two-sector model that influence mixed group issues include:

    (a) Two sectors (for-profit and PBE) – reporting boundary between for-profit entities and PBEs.

    (b) Entity level classification – where sector and tier classifications are determined for individual reporting entities rather than based on the reporting group.

    (c) Purpose-based sector differentiation – where entities are classified based on their own objectives rather than the objectives of the parent or wider group.

    (d) Common framework for public sector PBEs and not-for-profit PBEs – that reduces potential mixed-group complexity .

    (e) Different reporting frameworks for for-profit entities and PBEs – that results in different reporting requirements, reporting objectives and outcomes, and can lead to complexity

    (f) Multi-tiers – meaning entities within the same group may still be subject to differing reporting requirements.

    (g) Close alignment of Tier 1 and 2 requirements within each sector (disclosure concessions for Tier 2 entities but recognition and measurement requirements align) – which may reduce mixed-tier complexity.

49. These features collectively influence both how mixed groups arise and the significance of any resulting challenges. Some features, such as entity-level classification and purpose-based classification, create the conditions for mixed groups to arise. Others, such as the reporting frameworks applied across sectors and tiers, influence the extent of the burden that may result.

Sector-neutral model

Sector	Classification basis	Example of standards framework that may be applied
All entities	N/A	A common reporting framework, such as NZ IFRS May still require sector-specific modifications where PBE reporting issues arise (unless eligible for Tier 3 or Tier 4)

50. Features of the sector-neutral model that influence mixed group issues include:

    (a) No sector differentiation or classification basis – reduces one of the principal conditions that give rise to mixed-sector groups.

(b) Common reporting framework – reduces the need to reconcile information prepared under different sector-specific reporting frameworks.

(c) Multi-tiers – meaning entities within the same group may still be subject to differing reporting requirements.

(d) Potential use of sector-specific adaptations or modifications within a common framework - which may continue to create differences in reporting outcomes where entities have different objectives, transactions or accountability requirements.

51. A sector-neutral model has the potential to reduce some mixed-sector issues because both the sector classification boundary resulting in the use of different reporting frameworks are removed.

52. However, it does not necessarily eliminate all mixed-group issues. Differences in reporting requirements or additional cost on consolidation may still arise through:

(a) Differing requirements of the tiers;

(b) Differing statutory or cross-border reporting obligations; and

(c) Applying adaptations within a common reporting framework to address public benefit reporting considerations.

53. A sector-neutral model would not necessarily fully remove the underlying reasons why mixed-group issues arise. Entities within the same reporting group may still have different purposes, accountability relationships, statutory obligations, reporting tiers and user needs. Statutory reporting requirements that exist outside the ASF may also continue to create differences between entities within a group.

54. In addition, consolidation may still require judgement regarding group accounting policies, entity-specific disclosures, the application of sector-specific adaptations within the common suite of standards, and whether those adaptations have been applied consistently across the group.

55. Transitioning to a sector-neutral framework may also introduce implementation costs and system impacts as entities, software, processes, guidance and assurance practices adjust to the new framework.

56. Accordingly, the model may reduce the visibility of sector boundaries, in the sense that financial statements of entities operating in different sectors and with different main purposes would look more similar, but it may not remove the practical need to align information across entities for consolidation, audit and user interpretation purposes.

Three sector model

Sector	Classification basis	Example of standards framework that may be applied
For-profit sector	Meets a for-profit definition For illustrative purposes this could be based on: • generating financial returns for equity holders, • being publicly listed or publicly accountable as per XRB A1	NZ IFRS

Public sector	Meets a public sector definition For illustrative purposes this could be based on: • Subject to Public Audit Act • Other public sector factors • Excluding publicly listed entities or publicly accountable entities as per XRB A1	PBE Standards based on IPSAS (unless eligible for Tier 3 or Tier 4)
Not-for-profit or for-purpose sector	Meets a not-for-profit or for-purpose definition For illustrative purposes this could be based on: • pursuit of social, community, cultural or public benefit objectives, • accountability to donors, funders, members or beneficiaries • Excluding publicly listed entities or publicly accountable entities as per XRB A1	A NFP focused reporting framework, e.g. International Non-Profit Accounting Standard (INPAS) or locally modified standards (unless eligible for Tier 3 or Tier 4)

57. Features of the three sector model that influence mixed group issues include:

(a) Three sectors (for-profit, public sector, not-for-profit/for-purpose) – additional reporting boundaries may create additional opportunities for mixed-groups to arise.

(b) Definitions of the sectors – that may relieve or exacerbate mixed-group issues depending on how they are defined (for example, if the 'public sector' category is defined to also include entities currently known as for-profit public sector entities, this could relieve mixed group issues in public sector groups – but splitting public sector and private not-for-profit PBEs into to distinct sectors with different reporting requirements could increase mixed group challenges).

(c) Reporting frameworks used – different reporting frameworks for each of the three sectors may result in different reporting requirements, reporting objectives and reporting outcomes, influencing both how mixed-group issues arise and the extent of any resulting burden.

(d) Multi-tiers – meaning entities within the same group that are in different reporting tiers may still be subject to differing reporting requirements.

(e) Close alignment of Tier 1 and 2 requirements within each sector (disclosure concessions for Tier 2 entities but recognition and measurement requirements align) – which may reduce mixed-tier complexity.

58. The effect on mixed-group issues would depend heavily on the detailed design of the model, including the definition of sector boundaries, the basis on which entities are classified, and the reporting frameworks applied to each sector.

59. The impact of a three-sector model would also depend on how sector definitions impact existing mixed-group structures, such as public sector groups that include for-profit public sector entities. Changes to sector boundaries and reporting frameworks may themselves create

costs and unintended consequences if they result in the transition to new reporting requirements for these existing groups. Many of these entities have particular legislative obligations that could be disrupted, such as tax treatments based on NZ IFRS outcomes, balanced budget requirements in legislation, or other requirements or obligations that may be based on information from their financial statements. Accordingly, care would need to be taken to prevent unnecessary movement between reporting frameworks where existing reporting outcomes are appropriate and functioning effectively.

60. Finally, while this model creates an additional sector and reporting boundary, the extent to which it causes additional mixed group issues may also depend on the likelihood that reporting groups span all three sectors as opposed to two sectors.

Could the impact of mixed groups be minimised?

61. Mixed-group issues are one of the trade-offs that arise from the way the ASF is currently designed. Whether the consequences of mixed groups warrant a more targeted response depends on whether the burden is considered significant or costly enough to outweigh or seriously compromise the benefits provided by the ASF.

62. If mixed-group issues were considered sufficiently significant, a range of responses could potentially be considered outside of broader ASF structural design. However, the mechanisms available to achieve those outcomes vary considerably and are not always within the direct control of the XRB. Potential responses could include:

Degree of influence	Potential responses
Within XRB control	• improved guidance on sector classification and transitions between reporting frameworks to reduce unnecessary mixed groups (due to incorrect classification) or transitions between reporting frameworks; • allow, in specified circumstances, reporting approaches to be aligned across a reporting group (for example, allowing a not-for-profit PBE with several for-profit subsidiaries to apply certain for-profit requirements); • undertake domestic standard-setting, where appropriate, to improve the alignment of reporting requirements between sectors in a timely manner, while balancing international alignment; and/or • consider whether transition requirements for moving into another sector (i.e. first-time adoption standards) appropriately balance the costs and benefits of moving between reporting frameworks where mixed-group issues arise – especially if a new sector model is implemented and requires a change in framework.
Within XRB influence but not control	• influence international standard setting bodies (e.g. IPSASB) to improve the alignment of reporting requirements (e.g. with those of the IASB) in a timely manner, where differences between frameworks may create unnecessary complexity for reporting groups.

Outside direct XRB control	• influence statutory requirements, where possible, to consider the need for separate financial statements where group reporting is prepared in line with GAAP.

63. While mixed-group issues may reduce some of the benefits the ASF intends to achieve, these responses may also involve their own trade-offs that compromise the objectives of the ASF. For example:

    (a) reducing mixed-group complexity by allowing a consistent reporting approach for all reporting entities could also reduce some of the proportionality benefits that sector differentiation, tiers of reporting, and separate reporting obligations are intended to achieve.

    (b) undertaking domestic standard-setting seeking greater alignment between frameworks may sacrifice international alignment.

64. The appropriateness of any response would need to be considered in the context of the broader ASF objectives and would depend on understanding:

    (a) where mixed-group issues create the greatest burden;

    (b) whether those burdens are proportionate;

    (c) whether certain reporting groups are affected more than others; and

    (d) the extent to which any response would reduce burden without undermining the objectives of the ASF.

65. Accordingly, staff do not propose exploring detailed interventions through the ASF Discussion Paper. Rather, stakeholder feedback on the nature, prevalence and significance of mixed-group issues would help inform whether any response warrants further consideration. Stakeholders could also be asked to identify any practical steps or targeted responses that could help alleviate mixed-group challenges, including where those responses may sit within, or outside, the XRB's direct control.

Implications for the Discussion paper

Why consult on mixed groups?

66. Mixed-groups is a consequence of the design of the current ASF, and the resulting challenges have been raised through Board discussions and stakeholder engagement as a practical reporting challenge. Accordingly, we consider that mixed groups warrant separate treatment in the Discussion Paper, rather than being addressed indirectly through the higher-level sectors and tiers analysis.

67. In particular, mixed groups illustrate how the ASF's design choices affect the operation of the framework in practice. It therefore provides useful insight for stakeholders to consider when evaluating future ASF options and in determining if mixed group issues could be an acceptable trade-off for a particular design option.

How mixed groups should be framed?

68. While mixed groups are a consequence of the design of the current ASF, they largely arise because entities within the same reporting group may have different purposes, user needs and accountability requirements that may justify more proportional reporting.

69. Accordingly, mixed groups should be presented as a practical area where the benefits of sector, tier, and framework differentiation may come into tension with the costs of complexity (consolidation etc.) for a subset of the overall population.

70. The Discussion Paper could therefore use mixed groups to explore:

(a) the extent to which sector and tier differentiation creates practical reporting challenges;

(b) whether those challenges are an acceptable trade-off of a more tailored framework;

(c) whether mixed-group issues should influence views on future ASF design options; and

(d) whether any additional responses to minimise mixed group issues may be warranted.

71. This framing would allow stakeholders to consider mixed groups in the context of broader ASF design choices, while avoiding any implication that a particular solution is being proposed or preferred at this stage.

72. Excerpt of how this framing might look in the discussion paper is included in Appendix 1.

Suggested consultation questions

73. We consider there is value in the Discussion Paper including a broad consultation question supported by a range of considerations, rather than a series of narrowly framed questions.

74. This approach would encourage stakeholders to reflect on mixed-group issues in the wider context of ASF design and provide more holistic feedback on the significance of the issue and any potential responses.

75. We suggest this type of question may look like:

How significant are mixed-group issues in practice, and to what extent should these issues influence the design of the future ASF?

In responding, stakeholders may wish to consider:

- whether mixed-group issues create significant practical challenges in preparing, assuring, or using financial reports and whether any particular types of mixed-group arrangements create greater challenges than others;
- whether those challenges are an acceptable consequence of an ASF that seeks to provide tailored reporting objectives across sectors and proportionate reporting requirements across tiers;
- whether mixed-group issues should be a key consideration and influence views on design options for the future ASF; and
- whether targeted responses to address mixed group issues should be considered and, if so, what form those responses might take, and whether the benefits of any response would outweigh the associated trade-offs.

Questions for the Board

(1) Does the Board have any FEEDBACK on staff's analysis of mixed-group issues, and are there any additional aspects that should be considered?

(2) Does the Board AGREE that mixed groups should be included as a distinct topic in the ASF Discussion Paper?

(3) Does the Board have any FEEDBACK on the direction of the proposed framing of mixed-group issues for consultation in the ASF Discussion Paper?

(4) Does the Board have any FEEDBACK on the proposed consultation questions and areas where stakeholder feedback should be sought in the ASF Discussion Paper?

Appendix 1

Excerpt of Mixed Groups for the Discussion Paper

What are mixed groups?

When an entity controls other entities, it is generally required to prepare consolidated financial statements for itself and its controlled entities as a single reporting entity, i.e. the group. Mixed groups occur when entities within the same reporting group prepare financial statements using different reporting frameworks. This can arise from entities being classified into different sectors or tiers, or even being subject to different statutory requirements or cross border obligations.

Reporting groups that are mixed groups must bring together financial statements prepared under different requirements into a single set of consolidated financial statements under a consistent accounting standards framework (such as NZ IFRS or PBE Standards) and consistent accounting policies.

Why do mixed groups matter in the review of the ASF?

Mixed-group issues arise because reporting requirements based on the entity's sector and tier are determined at a reporting entity level, which means that an individual controlled entity/subsidiaries that has to prepare financial statements may not be classified in the same sector or tier as the parent and consolidated group, and therefore may have different reporting requirements.

Where entities within the same group are classified in different sectors and/or reporting tiers, and therefore apply different reporting frameworks, it can be complex and costly to prepare and audit consolidated financial statements, and may also result in these financial statements being less decision-useful.

Mixed groups and ASF design

Mixed-group issues are closely linked to the design of the ASF. Features such as sector distinctions, tiers and different reporting requirements help the ASF provide reporting requirements that are more proportionate to entities' differing objectives, accountability relationships and user needs. However, those same features can increase complexity where reporting groups contain entities subject to different requirements.

As a result, reducing mixed-group issues may involve trade-offs between simplicity and other objectives of the ASF, and the ability to tailor reporting requirements to different types of entities.

Two-sector model

The two-sector model (in the current ASF) has several features that influence mixed-group issues:

- entity-level classification;
- purpose-based sector classification;
- different reporting frameworks for for-profit entities and PBEs; and
- tier differentiation within each sector.

These features in one form or another may arise in alternative sector options. Below we reflect on the features of the other sector models outlined in this paper that may influence mixed-group issues.

Sector-neutral model

A sector-neutral model would remove sector-based differentiation and apply a common reporting framework across entities.

Features of a sector-neutral model that may influence mixed-group issues include:

- removal of sector classification boundaries;
- use of a single reporting framework;
- continued use of reporting tiers; and
- any modifications needed to reflect different reporting objectives or accountability requirements.

While a sector-neutral model removes one of the primary sources of mixed-group complexity, it does not remove the underlying differences that can exist between entities within a reporting group. Different accountability relationships, user needs, statutory obligations and reporting requirements may continue to require judgement, adjustments and reconciliation at a group reporting level. Accordingly, the model may reduce mixed-group issues, but is unlikely to eliminate them entirely.

Three-sector model

A three-sector model would differentiate between for-profit, public sector and not-for-profit (or for-purpose) entities.

Features of a three-sector model that may influence mixed-group issues include:

- additional sector boundaries;
- the basis on which entities are classified into sectors;
- the reporting frameworks applied to each sector;
- the extent of alignment between those frameworks; and
- tier differentiation within each sector.

The effect on mixed-group issues would depend heavily on the detailed design of the model, especially the sector definitions and the reporting framework for each sector. While a three-sector model introduces additional reporting boundaries, the extent to which this results in additional mixed-group burden may also depend on how frequently reporting groups span all three sectors rather than only two. Furthermore, if all public sector entities, including for-profit ones (excluding those that are publicly listed or publicly accountable per XRB A1), are classified in the same sector and are subject to the same suite of standards, this could reduce mixed group issues in the public sector. However, this may detract from the usefulness of individual public sector for-profit entities' financial statements.

Could the impact of mixed groups be reduced?

Changes to sector design in the ASF are not the only way to address mixed-group issues. Other responses may also be available, although they may involve their own trade-offs.

Type of response	Examples
Within XRB control	classification guidance, transition guidance, domestic standard-setting to enhance alignment in accounting requirements between sectors, possible group-alignment relief
Within XRB influence but not control	encouraging IPSASB/IASB alignment and that such alignment happens in a timely manner
Outside XRB direct control	statutory requirements for separate financial statements, overseas reporting obligations

Consultation Question

How significant are mixed-group issues in practice, and to what extent should these issues influence the design of the future ASF?

In responding, stakeholders may wish to consider:

- whether mixed-group issues create significant practical challenges in preparing, assuring, or using financial reports and whether any particular types of mixed-group arrangements create greater challenges than others;
- whether those challenges are an acceptable consequence of an ASF that seeks to provide more proportionate reporting requirements across the reporting system;
- whether mixed-group issues should be a key consideration and influence views on design options for the future ASF; and
- whether targeted responses to address mixed group issues should be considered and, if so, what form those responses might take, and whether the benefits of any response would outweigh the associated trade-offs.

Appendix 2

Sources of mixed-sector complexity

The complexity associated with mixed-sector groups arises because the reporting frameworks applied within the ASF are designed to support different reporting objectives, transactions, accountability relationships and user needs.

As a result, differences may arise in several ways, including:

- recognition and measurement requirements;
- accounting policy choices;
- presentation requirements;
- disclosure requirements; or
- reporting requirements relating to accountability and service performance;

Examples of areas where differences may arise include:

- non-exchange transactions such as taxes, grants and donations;
- public-benefit assets and impairment considerations;
- service performance reporting requirements; and
- other public-sector specific transactions (such as transfer expenses) and accountability requirements.

Furthermore, the absence of directly equivalent requirements in NZ IFRS relating to public benefit transactions or assets and liabilities often leads to uncertainty in how these transactions should be appropriately addressed under that framework.

Complexity may also arise because reporting frameworks do not always evolve at the same time. For example, changes introduced through NZ IFRS may not immediately flow through to PBE Standards (the current NZ IFRS treatment of leases is one example), as it can take time for the IPSASB to consider potential public sector modifications to IFRS requirements, and for the NZASB to consider New Zealand modifications to IPSASB requirements (e.g. for not-for-profit PBEs) if needed. Where reporting groups contain both for-profit and PBE entities, preparers may be required to adjust for differences arising from differing implementation timeframes before later revisiting those adjustments when equivalent requirements are incorporated into PBE Standards.

Similarly, differences in presentation requirements, impairment approaches, or accounting policy choices may require adjustments when information prepared under one framework is incorporated into group reporting prepared under another framework.

Area	Example of potential mixed-group issue
Non-exchange transactions	PBE Standards contain specific requirements on accounting for revenue from taxes, grants and donations that do not arise in the same way under NZ IFRS.
Service performance reporting	PBEs may be required to report service performance information under PBE FRS 48, whereas NZ IFRS does not contain an equivalent requirement.
Public-benefit assets	Concepts such as service potential and non-cash-generating assets may result in different impairment considerations for public-benefit assets

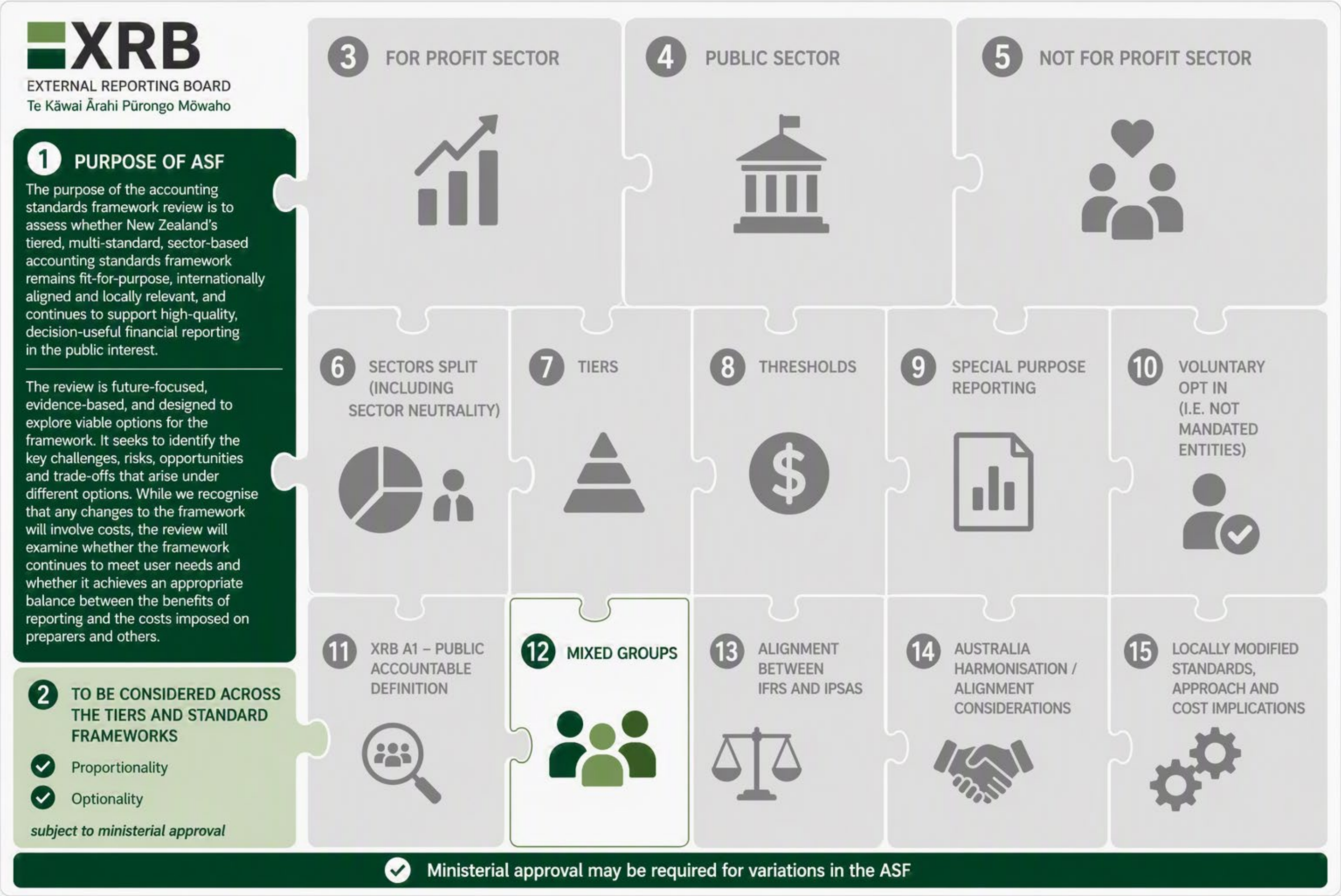
	accounted for under PBE Standards, compared to how assets held by for-profit entities are accounted for under NZ IFRS.
Leases	The right-of-use lessee accounting model in NZ IFRS 16 has not yet been incorporated into PBE Standards.
Accounting policy choices	Different frameworks may provide different policy options or practical expedients.
Presentation requirements	Changes such as NZ IFRS 18 may affect how financial performance is presented by for-profit entities compared with PBE reporting.
Standard-setting timing differences	Changes introduced into IFRS may not immediately flow through to IPSAS and PBE Standards, potentially creating temporary differences within mixed groups.

We have observed that these issues are particularly relevant in some public sector mixed-group arrangements, such as public sector entities that control commercial subsidiaries. However, the practical significance of those issues will depend on the circumstances of the reporting group.

Appendix 3

For additional information refer to the following mixed group slides.

Mixed groups



Challenges created by mixed groups

The practical issue is not that entities differ, but that those differences must be reconciled for reporting, assurance and users.

1

Consolidation and financial reporting

Information prepared under different sector or tier requirements may need to be aligned before it is included in group financial statements.

- recognition and measurement
- accounting policies and disclosures
- additional group information

2

Audit and assurance

Conversion adjustments and group-level processes may require additional evidence, documentation and review procedures.

- controls over consolidation
- conversion journals and adjustments
- management judgement

3

Users and reporting outcomes

Users may need to understand why similar transactions might be reported differently across entities and at group level, and how those differences affect interpretation of financial information.

- entity-level accountability
- group-level comparability
- usefulness of the overall report

Core message: mixed-group issues affect preparation, assurance and interpretation of consolidated financial statements.