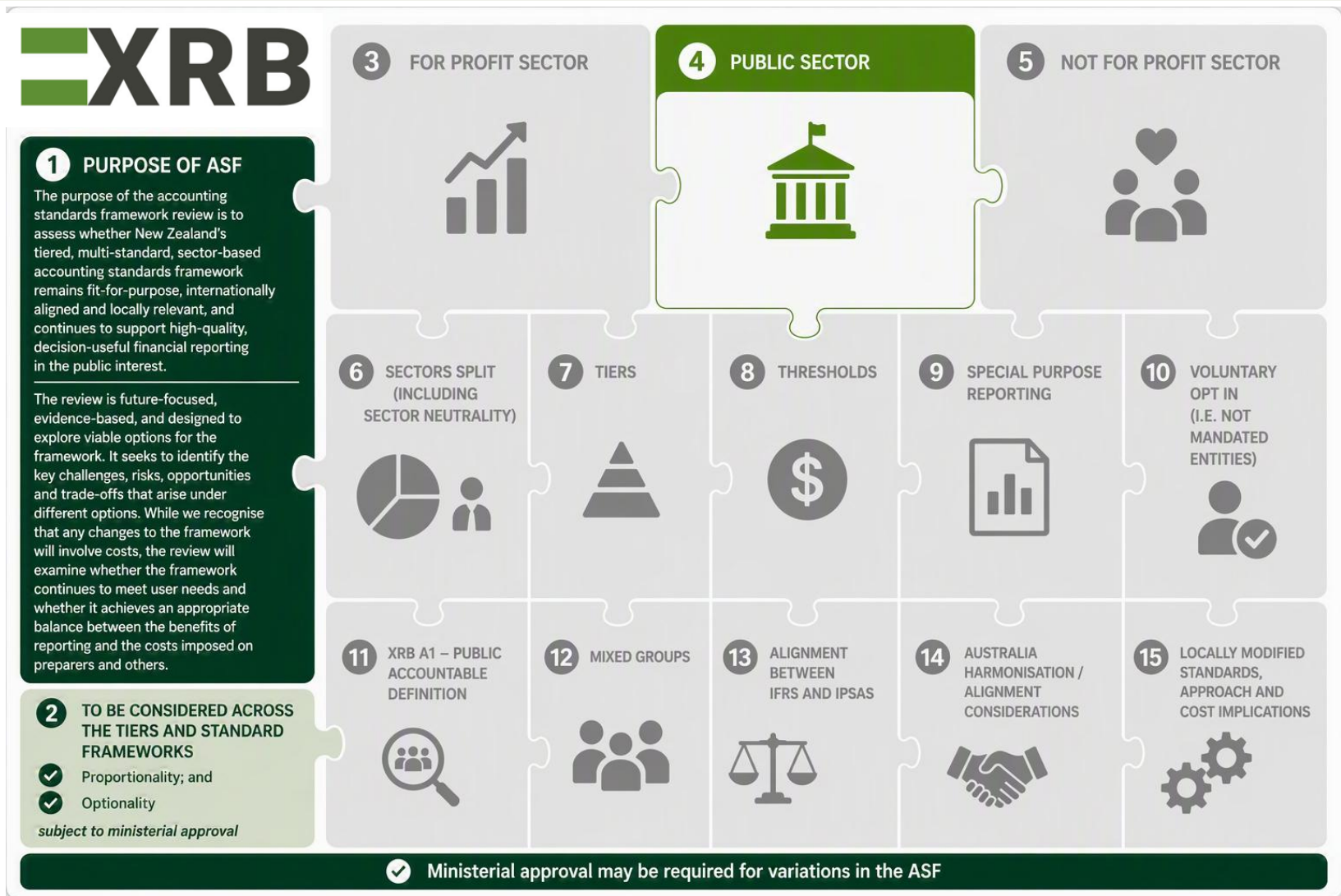


Tier 1 and Tier 2 public sector alternative framework analysis



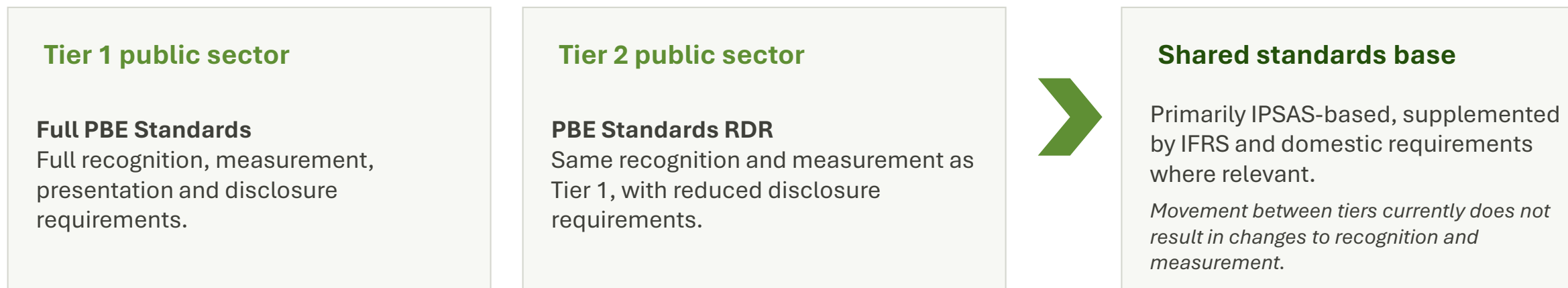
ASF Review – Where the public sector review fits in

The public sector sits within the wider Accounting Standards Framework review – as element 4.



Current Tier 1 and Tier 2 framework and why it's primarily IPSAS-based

Tier 1 and Tier 2 share a common recognition and measurement basis; Tier 2 achieves proportionality through reduced disclosures.



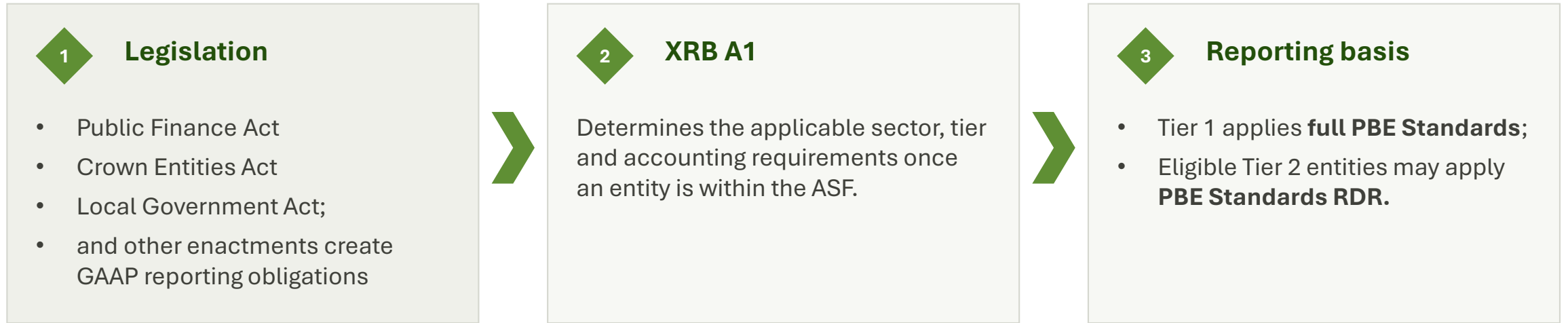
Why IPSAS was selected as the primary reference point

Developed for public-sector entities and accountability for public resources; addresses service recipients and resource providers rather than focusing primarily on capital-market investors.

New Zealand retained domestic modification capability. IPSAS and IFRS are also closely related in many areas, with IPSAS adapting or supplementing IFRS where public-sector considerations require it.

Legislative and regulatory environment

Legislation creates the reporting obligation; XRB A1 then determines the sector, tier and applicable accounting requirements.



Broader public sector accountability is wider than the technical XRB A1 definition of public accountability

Depending on the entity, accountability may extend to Parliament, Ministers, taxpayers, ratepayers, service recipients, resource providers, funders, lenders, investors, communities and the wider public.

Tier 1 public sector entities

A public sector entity that has *public accountability* as defined under XRB A1

OR

A '*large*' *PBE* with total expenses > \$33 million

Tier 1 public sector entity characteristics

Tier 1 public sector entities manage substantial public resources and deliver critical services on behalf of the public. Their activities expose a wide range of stakeholders to financial and service delivery risk.

There is a strong expectation that these entities produce high-quality, transparent, and robust financial and service performance reporting. The OECD Economic Survey of New Zealand 2026 highlights a more uncertain global environment, increasing the importance of fiscal credibility and sustained investment; for the public sector this reinforces the accountability role of reporting, where credible, transparent information underpins confidence in the management of public resources and the long-term sustainability of service delivery.

For Tier 1 public sector entities, the key question is whether a dedicated public sector framework (IPSAS-based) remains necessary to meet accountability and reporting needs, or whether alternative approaches could achieve this in a more efficient or aligned manner.

[#] The information on the quantity and characteristics of public sector entities was obtained from Audit NZ in July 2025.

Tier 2 public sector entities

Tier 2 public sector entity characteristics

Tier 2 public sector entities are subject to public sector accountability arrangements but operate at a scale and level of complexity that justifies proportionate public sector financial reporting requirements rather than a full Tier 1 framework.

A key consideration is whether a single Tier 2 public sector framework is appropriate for all entities within the tier, or whether differences in entity size, complexity, and user needs warrant further differentiation.

A public sector entity that has **no public accountability**

OR

Has total expenses > \$5 million but ≤ \$33 million (not 'large' as per XRB A1); **OR elects to apply** Tier 2 PBE requirements

[#]The information on the quantity and characteristics of public sector entities was obtained from Audit NZ in July 2025.

Characteristics of the reporting population



The Tier 1 population is relatively small and appears to be driven mainly by size; the Tier 2 population is heavily influenced by schools.

Tier 1

189 total indicative public-sector entities.

Government reporting entity, departments, local authorities, some Crown entities and other large PBEs.

Technical public accountability appears to apply to only a very small number.

Tier 2

2,602 total indicative public sector entities.

Approximately 2,417 are schools, and of those, around 605 meet the size criteria of Tier 2 under XRB A1.

Tier 2 schools adjusted population: ~790 entities.*

What matters for this review

Schools materially affect the composition of the Tier 2 population.

About 75% of the schools currently under Tier 2 are eligible for a lower tier. Many schools do not actually meet the size criteria for Tier 2 (i.e. have total expenses less than \$5 million) but report in Tier 2 due to Ministry of Education requirements.

The practical distinction between Tier 1 and Tier 2 is reduced disclosures — not recognition and measurement

Changing the standards basis for one tier but not the other could affect movement between tiers, group reporting and consolidation, systems, guidance and shared accounting capability.

* Of the 2,417 schools reporting in Tier 2, approximately 1,812 (about 75% of the school population), are eligible to report in a lower tier but report in Tier 2 due to [Ministry of Education's prescribed school financial reporting framework](#).

Please note: We are aware of the MOE currently considering changes to schools reporting.

User focus – public sector Tier 1 and 2 entities



Primary users

- Currently includes a very broad primary user base:
 - Service recipients (such as citizens) and their representatives; and
 - Resource providers (such as tax payers, lenders, donors and funders) and their representatives.

Other users

- Financial statements are not primarily directed at these parties currently (not exhaustive):
 - Government statisticians, analysts
 - Media, Public interest and lobby groups
 - Regulatory and oversight bodies
 - Rating agencies etc.



Nature of primary user needs

- Support assessments of the discharge of accountability and support decision making, such as:
 - Assess performance of the entity (meeting service delivery, managing resources, compliance)
 - Assess liquidity and solvency
 - Assess sustainability of service delivery and other operations over the long term
 - Assess capacity of the entity to adapt to changing circumstances

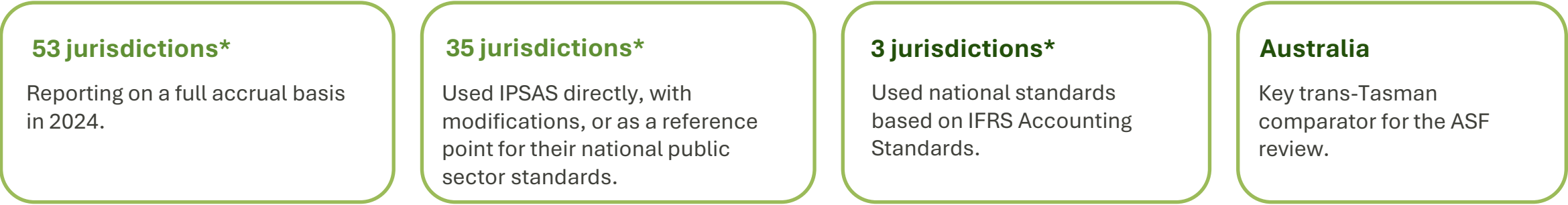


Implications for Tier 1 and 2 reporting

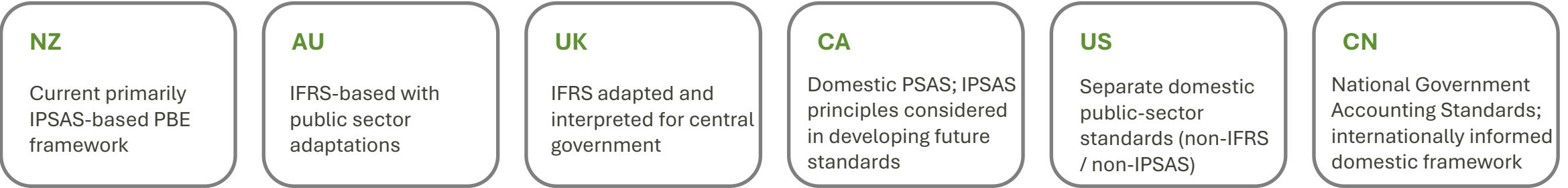
- Serves a broad and sometimes competing set of users and objectives
- Creates pressures; technically robust but understandable, comparable but relevant, transparent but material, decision useful across different audiences
- Accountability remains a central objective – focused on stewardship, service performance, long-term sustainability (rather than financial return)
- Financial reporting alone will not meet user needs

International practice, alignment and comparability

There is no single international model for public sector financial reporting and ‘international alignment’ can mean different things.



Selected comparators in the paper**



How to interpret alignment

IPSAS alignment may support international public-sector comparability; Australian alignment may support trans-Tasman comparability and ecosystem benefits; IFRS familiarity may matter to some international users. None of these considerations determines the appropriate framework on its own.

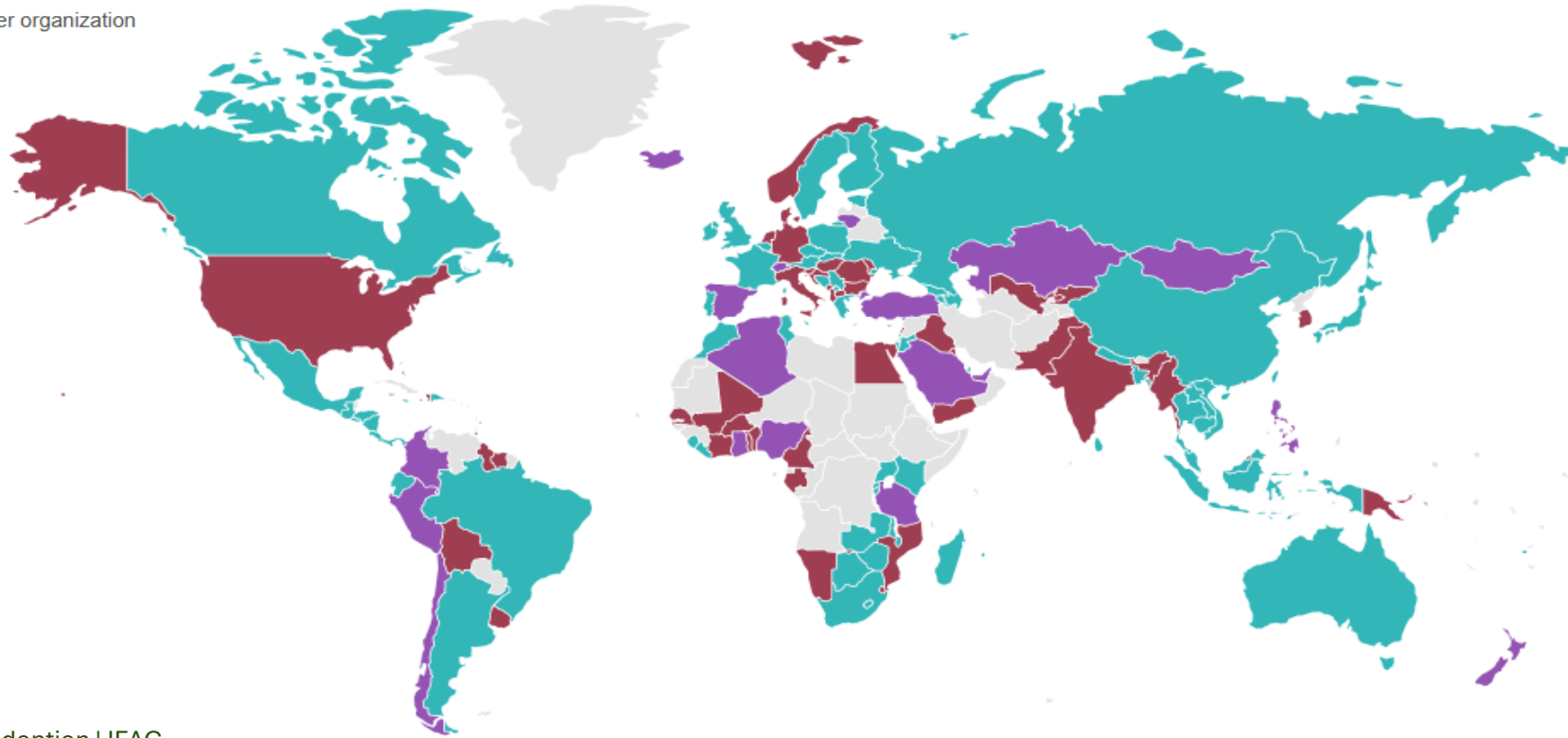
*[International Public Sector Financial Accountability Index 2025](#); central/federal government level. Figures illustrate international prevalence and do not indicate a preferred framework for New Zealand.

** Jurisdiction comparators have been selected for different reasons – reasons are outlined in paragraph 50 of the paper.

IPSAS international adoption

■ Adopted ■ Partially Adopted ■ Not Adopted

■ Jurisdictions without an IFAC member organization



Source: [Adoption Status | IFAC](#)

*Source: [Methodology for Assessing Adoption | IFAC](#)

Methodology for Assessing Adoption:*

- **Adopted** – Accrual-basis IPSAS with no modifications or accrual-basis IPSAS modified for local context have been adopted for application by all public sector entities.
- **Partially Adopted** – Accrual-basis national standards with reference to IPSAS OR accrual-basis national standards have been adopted; or
- Partial-accrual basis IPSAS modified for local context OR Partial-accrual IPSAS with no modifications OR Partial-accrual national standards with reference to IPSAS have been adopted; or Cash-basis IPSAS has been adopted.
- **Not Adopted** – IPSAS have not been adopted – either partial-accrual basis national standards OR cash-basis national standards are adopted.

Scale, diversity and capital-market relevance

The framework must support complex public-sector transactions and stewardship, while remaining understandable to users including some domestic and international capital providers.

Whole of Government

\$598.0b total assets
\$292.6b property, plant & equipment
\$183.5b total expenses

Transaction profile

\$121.1b taxation revenue
\$44.7b transfers and subsidies
Specialised assets and complex groups

Local government

78 local authorities
26% of NZ infrastructure assets
Approx. \$76b infrastructure asset value

Capital markets

2026/27 forecast gross NZGB issuance: \$34b
60% of NZGBs held by non-residents as at May 2026

What this means

International credibility and understandability are relevant, but the evidence does not show that any particular accounting framework would reduce borrowing costs or increase capital flows.

Tier 1 and Tier 2 public sector key challenges



As part of the review of the public sector reporting standards framework, staff identified several challenges in the sector, drawing on stakeholder feedback, staff experience and observed pressures in the reporting ecosystem. Not all of these challenges can be resolved by the ASF review – some arise from factors outside our control. The question is whether the review can reduce unnecessary burden and create a better balance. Being aware of these challenges helps us target where the framework can realistically make a difference, and to be transparent about what sits beyond its reach.



Tier 1 public sector reporting framework options considered

Tier 1 determines which standards basis should underpin full public-sector reporting.

Tier 1 public sector framework options



A.

**PBE Standards based on
IPSAS**

*Current framework and
baseline.*



B.

IFRS Accounting Standards

*International
alternative, designed
primarily for for-profit
reporting.*



C.

Locally Modified Standards

*International jurisdiction's
framework taken as a base –
modified for New Zealand
circumstances.*



D

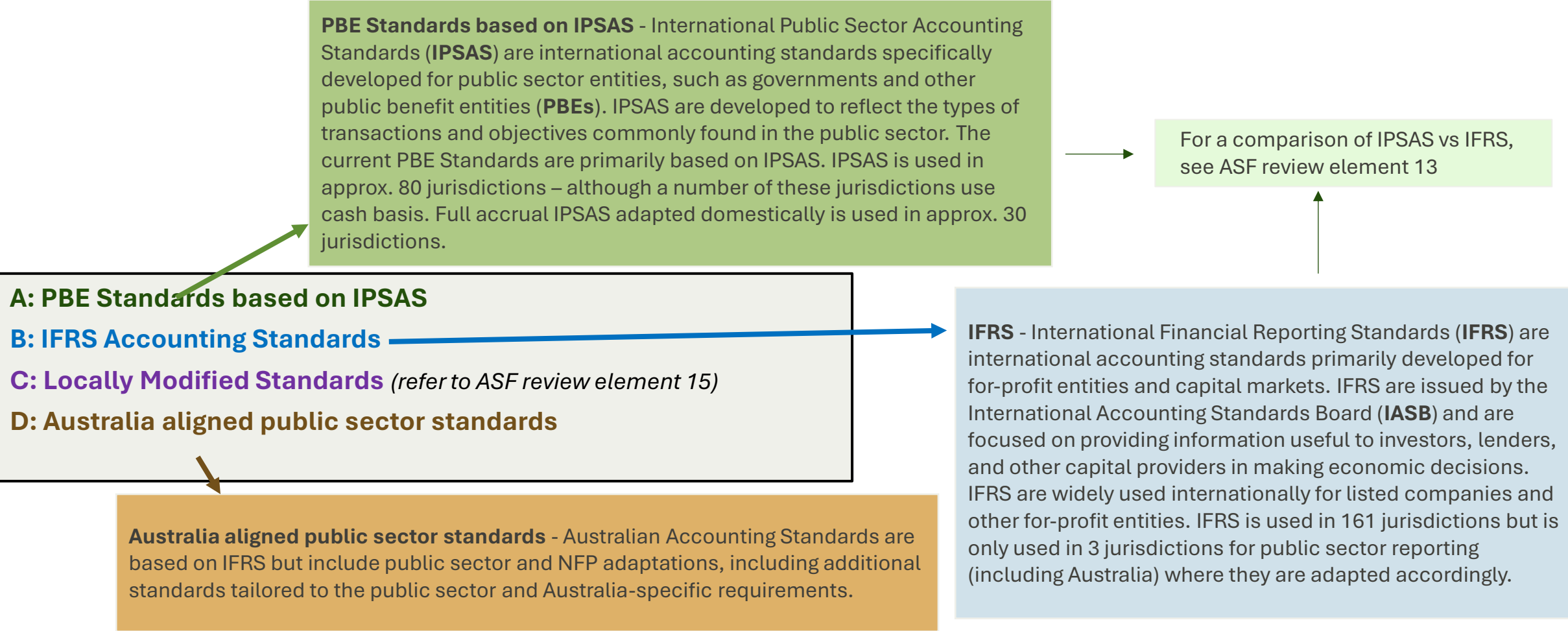
**Australian-adapted IFRS
framework
(PS)**

*IFRS-based approach
with public-sector
adaptations.*

The Government Finance Statistics Manual 2014 (GFSM)

GFSM is a macroeconomic statistical framework designed to support fiscal analysis. It was considered but has not been included as an alternative general purpose financial reporting framework for Tier 1 public sector entities.

Tier 1 public sector framework options



To note - The framework options presented include option B (IFRS-based approach) and C (locally modified standards), which should be considered for the implications of a potential sector-neutral model, and whether these frameworks can appropriately meet the differing reporting objectives, user needs, and accountability requirements across sectors.

Tier 1 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

- 1

Staff prepared the options analysis of the alternative frameworks that was considered viable to this tier.
- 2

Each viable option is evaluated by considering its benefits and trade-offs and assessing it against a set of key criteria.
- 3

The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Ecosystem	Transition costs
This means:	Technical fitness; coherent suite capable of <i>faithfully representing public sector transactions and accountability relationships</i> developed with user needs in mind (preparers and user focus) – <i>focused on benefits</i>	Recognition, measurement and disclosure simplification options (addressing preparer complexity while maintaining decision useful information)	Ability to reflect NZ economic and user needs, including through local modifications and international standard-setting influence (<i>importance may vary across tiers and entity types</i>) – <i>focused on benefits</i>	Internationally aligned, recognised and comparable - including Australia (<i>importance may vary across tiers and entity types</i>) – <i>focused on benefits</i>	Ongoing costs of applying and maintaining the standards (i.e. how often are changes expected), including AI-related costs (preparer focus)	Availability of skills, guidance, systems, audit capability and training to support implementation and ongoing application	Cost of change (transition costs for preparer, auditors, regulators and wider ecosystem)

Tier 1 public sector entities – summary assessment across key criteria

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. This assessment is preliminary and is presented to prompt discussion — the ratings are staff judgements and are open to challenge.

Tier 1 Option	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Ecosystem	Transition costs
A. PBE standards based on IPSAS	●	●	●	●	●	●	●
B. IFRS	●	●	●	●	●	●	●
C. Locally modified standards	●	●	●	●	●	●	●
D. Australian-adapted IFRS framework (PS)	●	●	●	●	●	●	●

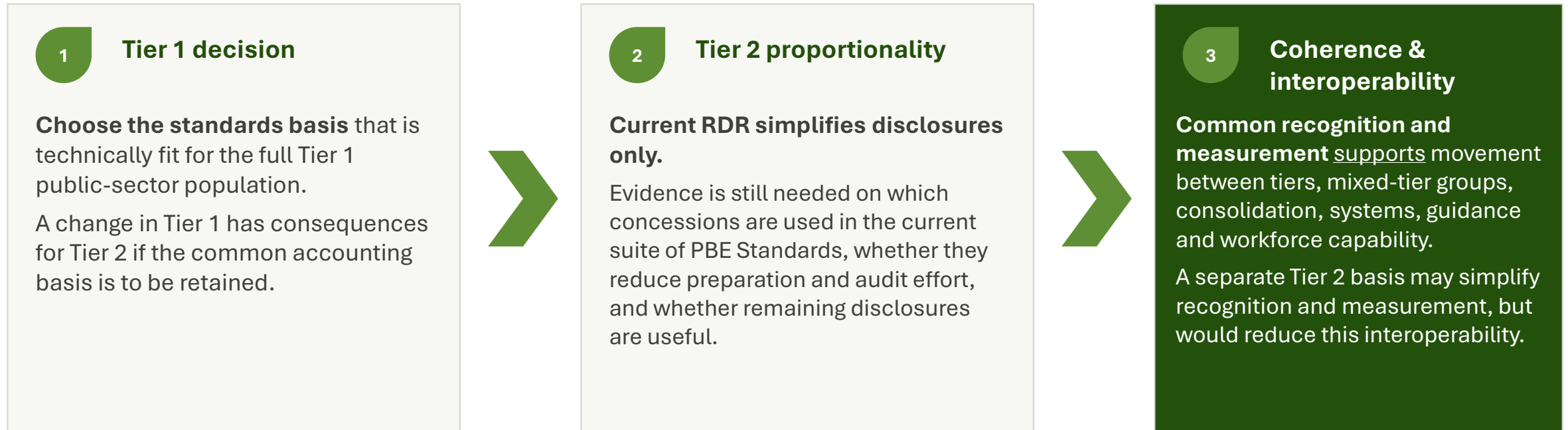


Tier 1 Option	Include in DP	Key drivers of the assessment		
A. PBE Standards based on IPSAS	Include	1. Public sector focused framework	2. Ability to make changes to ensure it is fit-for-purpose	3. Internationally credible
B. IFRS	Include	1. Designed for for-profit entities, used for PS in only 3 jurisdictions	2. Closer alignment with Aus	3. Licence agreements limits simplification
C. Locally modified standards	Include	1. Simplification possible	2. Loss of international credibility	3. High transition and maintenance costs
D. Australian-adapted IFRS framework (PS)	Include	1. Aligned with Australia	2. IFRS-based standards with Aus public sector adaptations	3. Licence agreements limits simplification

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

Framework coherence considerations

Tier 2 proportionality cannot be assessed in isolation from Tier 1 because the current framework shares recognition and measurement requirements.



Central and local government may experience Tier 2 proportionality differently

Central-government entities may still need information for Treasury consolidation even where GPFR disclosures are reduced; local government is not consolidated into the Government reporting entity, so RDR may more directly affect GPFR preparation and audit effort.

Tier 2 public sector reporting framework options considered

Tier 2 determines how proportionality should be delivered.

Tier 2 public sector framework options



A.

PBE Standards based on IPSAS with RDR

Current common recognition and measurement basis with reduced disclosures.



B.

IFRS Accounting Standards with RDR

Full IFRS recognition and measurement with reduced disclosures.



C.

IFRS for SMEs

Separate simplified recognition, measurement and disclosure framework.



D.

Locally Modified Standards

International jurisdiction's framework taken as a base – modified for New Zealand circumstances.



E.

Australian-adapted IFRS framework (PS) with RDR

Australian-style PS basis IFRS based plus reduced disclosures.

The Government Finance Statistics Manual 2014 (GFSM)

GFSM is a macroeconomic statistical framework designed to support fiscal analysis. It was considered but has not been included as an alternative general purpose financial reporting framework for Tier 2 public sector entities.

Tier 2 public sector framework options explored

PBE Standards based on IPSAS with RDR - an IPSAS 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 with RDR - an IFRS 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.

A: PBE Standards based on IPSAS with RDR

B: IFRS Accounting Standards with RDR

C: IFRS for SMEs

D: Locally modified standards (refer to ASF review element 15)

E: Australia aligned public sector standards with RDR

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.

Australia aligned public sector standards with RDR - Australian Accounting Standards are based on IFRS but include public sector and NFP adaptations, including additional standards tailored to the public sector and Australia-specific requirements. Retain full recognition and measurement requirements, while allowing reduced disclosure requirements, supporting a balance between comparability with Tier 1 and proportionality for Tier 2 entities.

The framework options presented include option B (IFRS-based approach) and D (locally modified standards), which should be considered for the implications of a potential sector-neutral model, and whether these frameworks can appropriately meet the differing reporting objectives, user needs, and accountability requirements across sectors.

Tier 2 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

- 1

Staff prepared the options analysis of the alternative frameworks that were considered viable to this tier.
- 2

Each viable option is evaluated by considering its benefits and trade-offs and assessing it against a set of key criteria.
- 3

The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Move between tiers	Ecosystem	Transition costs
This means:	Technical fitness; coherent suite capable of <i>faithfully representing public sector transactions and accountability relationships</i> , developed with user needs in mind (preparers and user focus) – <i>focused on benefits</i>	Recognition, measurement and disclosure simplification options (addressing preparer complexity while maintaining decision useful information)	Ability to reflect NZ economic and user needs, including through local modifications and international standard-setting influence (<i>importance may vary across tiers and entity types</i>) – <i>focused on benefits</i>	Internationally aligned, recognised and comparable - including Australia (<i>importance may vary across tiers and entity types</i>) – <i>focused on benefits</i>	Ongoing costs of applying and maintaining the standards (i.e. how often are changes expected), including AI-related costs (preparer focus)	Interoperability with Tier 1 (accounting requirements and workforce capability) ★	Availability of skills, guidance, systems, audit capability and training to support implementation and ongoing application	Cost of change (transition costs for preparer, auditors, regulators and wider ecosystem)



Tier 2 NFP key criteria are consistent to that of Tier 1 except for the addition of:



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

Tier 2 public sector entities – summary assessment across key criteria

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. **This assessment is preliminary and is presented to prompt discussion** — the ratings are staff judgements and are open to challenge.

Tier 2 Option	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Move between tiers	Ecosystem	Transition costs
A. PBE Standards based on IPSAS with RDR	●	●	●	●	●	●	●	●
B. IFRS with RDR	●	●	●	●	●	●	●	●
C. IFRS for SMEs	●	●	●	●	●	●	●	●
D. Locally modified standards	●	●	●	●	●	●	●	●
E. Australian-adapted IFRS framework (PS) with RDR	●	●	●	●	●	●	●	●

Tier 2 Option	Include in DP	Key drivers of the assessment		
A. PBE Standards based on IPSAS with RDR	Include	1. Public sector focused framework	2. Ability to make changes to ensure it is fit-for-purpose	3. Is internationally credible
B. IFRS with RDR	Include	1. Designed for for-profit entities (used for PS reporting in 3 jurisdictions)	2. Closer alignment with Australia	3. Licensing agreements limits simplification
C. IFRS for SMEs	Include	1. Designed for for-profit entities	2. Simplified recognition and measurement	3. Disruption to the current financial reporting ecosystem
D. Locally modified standards	Include	1. Simplification is possible	2. Loss of international credibility	3. High transition and maintenance costs
E. Australian-adapted IFRS framework (PS) with RDR	Include	1. Aligned with Australia	2. IFRS-based standards with Australian public sector adaptations	3. Licensing agreements limits simplification

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

Summary observations and consultation direction

The Tier 1 and Tier 2 decisions are linked, but Tier 2 proportionality still needs to be tested on its own merits.

1

What the assessment says

The current PBE Standards are an established, public-sector-focused framework.

Alternatives offer different potential benefits: closer Australian alignment, wider IFRS familiarity or more domestic tailoring.

For Tier 2, alternative models offer different degrees of simplification with different interoperability consequences.

2

What it does not say

Not all current reporting pressures arise from the framework itself.

Complex transactions, systems, data, valuations and audit processes may be the underlying cause.

In those cases, targeted support or improvements may be more effective than replacing the framework.

3

What goes to consultation

All four Tier 1 options and all five Tier 2 options assessed in the paper.

Consultation will test relative benefits and trade-offs, Tier 2 proportionality, international and trans-Tasman alignment, and whether challenges require framework change or targeted improvements.



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD



Have your say

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

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

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

Scan the QR code

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

Tier 1 Public Sector Reporting Frameworks



Tier 2 Public Sector Reporting Frameworks

