Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	Background and context to the review of the Accounting Standards Framework
Date:	24 July 2026
Prepared by:	Leana van Heerden
Through:	Michelle Lombaard

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

Purpose

1. This paper provides the New Zealand Accounting Standards Board (NZASB) with an overarching background and context paper for the review of the Accounting Standards Framework (ASF). It is intended to set the scene for public-session discussion by explaining what the ASF is, how it operates, why it is being reviewed, and the key factors that will need to be considered as the review progresses.

2. This paper is not intended to seek decisions on changes to the ASF. Rather, it provides a common foundation for future NZASB discussions, noting that earlier NZASB discussions were exploratory and focused on informing the approach to detailed assessment. In this paper we:
   - explain the role of the ASF within New Zealand's financial reporting system;
   - summarise the background to the development of the current ASF and its key structural features;
   - outline relevant domestic, international, legislative and strategic factors that may influence the review;
   - describe the staged approach to the review and the viable options analysis being used for frameworks, sectors, tiers and thresholds; and
   - set out the current project next steps, including development of public papers, the discussion paper and the outreach plan.

Recommendations

3. It is recommended that the Board:
   (a) NOTE the background and context for the review of the ASF;
   (b) NOTE the staged approach to the review, including the use of viable options analysis to support detailed assessment of the key elements of the ASF; and

(c) PROVIDE FEEDBACK on whether any additional background, contextual factors or evidence-gathering considerations should be included as the review progresses.

Structure of this memo

4. The remaining memo and agenda item includes:

(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; and

(j) Overall project next steps; and

(k) Feedback sought from the Board.

Appendices

Appendix 1: ASF sectors definitions and classification guidance

Appendix 2: Legislative requirements to apply XRB accounting standards

Appendix 3: Section 31 and 32 of the Financial Reporting Act 2013

Appendix 4: Background slides

XRB mandate and purpose

5. The External Reporting Board (XRB) is an independent Crown entity with statutory functions prescribed by Section 12 of the Financial Reporting Act 2013. These functions include developing and issuing financial reporting, climate, auditing and assurance standards; issuing authoritative notices that support the operation of New Zealand's reporting frameworks; and developing strategies for the issue and application of those standards, including the Accounting Standards Framework (ASF). The XRB also engages with domestic and international standard-setting organisations to contribute to the development of high-quality reporting frameworks and to ensure New Zealand's reporting requirements remain internationally informed and credible.

6. The XRB's purpose is to promote trust and confidence, transparency and accountability through high-quality external reporting and assurance. It does this by establishing and maintaining robust frameworks and standards that are internationally credible, locally relevant and designed to support trusted, informative and integrated reporting that meets users' needs. The Accounting Standards Framework (ASF) is a key component of this strategic approach, providing the structure through which the XRB applies reporting requirements to different types of entities and balances the benefits of information with the costs of reporting.

What is the ASF

7. The ASF gives effect to the XRB's financial reporting strategy (see Reporting strategies and frameworks » XRB) by setting out how accounting standards apply to different classes of reporting entities. While primary legislation determines *which entities* (refer to Appendix 2) are required to prepare financial statements in accordance with XRB standards, the ASF determines what accounting standards apply to those entities. This distinction is central to the review - the XRB can consider whether the structure and operation of the ASF remain appropriate, but the underlying legislative reporting obligations sit outside the ASF itself.

8. The ASF therefore operates alongside New Zealand's statutory financial reporting framework. This section explains the current ASF and its development, before later sections address the legislative environment and scope boundaries relevant to the review.

9. The current ASF was developed following a multi-year consultative process between 2009 and 2012. That process considered how New Zealand should balance costs and benefits focusing on user needs, international alignment, local relevance and proportionality across the for-profit, public sector and not-for-profit sectors.

10. The resulting framework moved New Zealand from a sector-neutral approach to a sector-based, multi-standard, tiered approach.

Current ASF structure and how it works

11. To provide a common foundation for assessing whether the ASF remains fit-for-purpose, this section first outlines the current structure of the ASF and how its key components operate together. The current ASF has three key structural features:

Structural feature	Description	Purpose
Two-sector approach	Entities are classified as either for-profit entities or Public Benefit Entities (PBEs), based on their primary objective. Refer to Appendix 1 that defines and explains the sector classifications.	Reflects the different user needs, objectives and accountability relationships of entities that operate for financial return compared with those that provide goods or services for community or social benefit.
Tiered approach	Different reporting requirements apply to different tiers within each sector.	Supports proportionality by tailoring reporting requirements to user needs, public accountability, size, and cost-benefit considerations.
Multi-standards approach	Different suites of accounting standards apply to different sectors and tiers. For-profit standards are based on IFRS Accounting Standards. PBE Standards for Tiers 1 and 2 are based primarily on IPSAS Standards, and domestic simple format standards apply to Tier 3 and Tier 4 PBEs.	Recognises that a single suite of standards may not adequately meet the information needs of users across all sectors.

12. For-profit entities are currently divided into two tiers. Tier 1 applies to entities with public accountability, as defined in XRB A1 paragraph 9, and 'large' for-profit public sector entities - 'large' is defined in the Financial Reporting Act 2013 (FRA), refer to Appendix 2. These entities apply New Zealand International Financial Reporting Standards (NZ IFRS). Tier 2 applies to for-profit entities that do not meet the Tier 1 criteria but are required, or elect, to report under XRB standards. These entities apply NZ IFRS with reduced disclosures (NZ IFRS RDR).

13. PBEs are divided into four tiers. Tier 1 and Tier 2 PBEs apply PBE Standards which are based on International Public Sector Accounting Standards (IPSAS), with Tier 2 eligible for reduced disclosures (PBE Standards RDR). Tier 3 and Tier 4 PBEs apply simpler domestic reporting standards, using accrual and cash-based approaches respectively. This tier structure reflects the need to scale reporting requirements for entities of different size, complexity and accountability.

14. These features mean that the ASF is not simply a list of standards. It is a strategic framework that determines how New Zealand balances user needs, international alignment, local relevance, preparer burden, public accountability and proportionality across a diverse reporting population. These ASF requirements are summarised in the table below.

Tier*	Public accountability and thresholds	Standards
For-profit entities		
Tier 1	• Has public accountability as defined in XRB A1; or • A large for-profit public sector entity with total expenses > $33 million (as defined in XRB A1)	NZ IFRS*
Tier 2	A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: • Has no public accountability; and • In the case of a for-profit public sector entity it must have total expenses ≤ $33 million (not 'large' as per XRB A1)	NZ IFRS RDR*
PBE- Public sector and NFP entities		
Tier 1	• Has public accountability as defined in XRB A1; or • A large PBE with total expenses > $33 million (as defined in XRB A1)	PBE Standards
Tier 2	• Has no public accountability; and • Has total expenses ≤ $33 million (not 'large' as per XRB A1)	PBE Standards RDR
Tier 3	• Has no public accountability; and • Has total expenses ≤ $5 million	Tier 3 PBE Standard
Tier 4	• Has no public accountability; and • Is allowed by law to use cash accounting (non-GAAP).	Tier 4 PBE Standard

Why the ASF is being reviewed now

15. The ASF has now been operating for approximately a decade, refer to paragraph 23-33 below which covers the background and financial reporting landscape in more detail. When the XRB completed its targeted review of the ASF in 2020, it noted that a more comprehensive review should be considered once the framework had been operating for 10–15 years. The timing of the current review is therefore consistent with the earlier expectation that the ASF should be reassessed after a period of practical application.

16. The review is also timely because the domestic and international reporting environment has changed materially since the ASF was approved in 2012 and became effective across sectors in 2014 and 2015. Accounting standards have matured, user expectations have evolved, new international frameworks have emerged, and the New Zealand reporting landscape continues to change.

17. The review is therefore intended to test whether the ASF's existing design choices — including its sector structure, tiers, thresholds and suites of standards — remain appropriate in light of experience since implementation and changes in the reporting environment.

Purpose and scope of the review

18. The review of the ASF is a strategic project and was included in the XRB's recently issued Statement of Intent 2025 - 2030. It is being undertaken within the XRB's financial reporting strategy and provides the basis for assessing the matters set out below.

Purpose of the ASF review

The purpose of the review is to assess whether New Zealand's tiered, multi-standard, sector-based accounting standards framework remains fit-for-purpose, internationally aligned and locally relevant, and continues to support high-quality, decision-useful financial reporting in the public interest.

The review is future-focused, evidence-based, and designed to explore viable options for the framework. It seeks to identify the key challenges, risks, opportunities and trade-offs that arise under different options. While any changes to the framework will involve costs, the review will examine whether the framework continues to meet user needs and whether it achieves an appropriate balance between the benefits of reporting and the costs imposed on preparers and others.

19. Exploratory discussions were held with the NZASB, XRB Board and other stakeholders to consider the scope of the review. These discussions analysed different elements of the ASF, including sectors, tiers, thresholds and the suites of accounting standards that apply within the framework. The full scope is still being refined as staff work through the detailed assessments and identify the evidence required to support robust decision-making.

20. To support a clear and productive review process, the following matters have been agreed as *out of scope* for this review:

Out-of-scope matter	Implication for this review
Legislative reporting requirements	The review will not consider legislative requirements that determine *which entities* must prepare financial statements in accordance with XRB standards. Refer to Appendix 2 for legislative reporting requirements.
Detailed standard-setting requirements	The review will not reconsider detailed recognition, measurement, presentation and disclosure requirements within existing accounting standards, including RDR concessions and the Conceptual Framework. This also includes decisions on whether particular standards or disclosures are mandatory for certain sectors, tiers or entity types, such as the mandatory nature of service performance reporting for PBEs.
Assurance and professional standards	The review will not consider auditing, assurance, professional or ethical standards.
Climate Standards	The review will not consider the XRB's Climate Standards.
Broader reporting architecture	The review will not consider the XRB's broader architecture of reporting, other than the ASF.

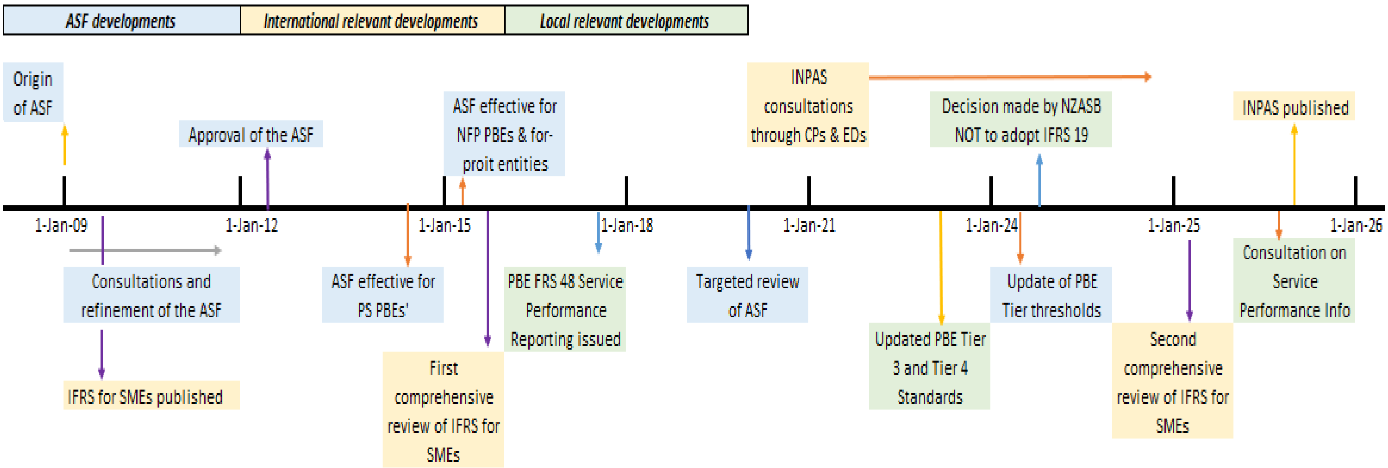
21. These scope boundaries are intended to focus the review on the structure and operation of the ASF itself, rather than reopening the requirements included in legislations, assurance standards, climate standards or the detailed requirements within individual standards.

22. The following section provides further context on the financial reporting landscape within which the ASF operates. This context is relevant to the review because any potential changes to the ASF will need to be assessed within New Zealand's legislative environment, the historical development of the framework, international developments, Australia–New Zealand harmonisation considerations, and the practical costs and benefits of change.

Background and financial reporting landscape

23. The ASF is a financial reporting strategy for the purposes of the Financial Reporting Act 2013. Accordingly, any proposal to vary or replace the ASF must be considered within the statutory process in sections 31 and 32 of the Act, which require Ministerial approval and prescribe matters the XRB must have regard to when preparing such a proposal. These provisions are reproduced in Appendix 3 for ease of reference.

24. The timeline below sets out key milestones in the ASF's development, including consultations, reviews and relevant international and local developments that may need to be considered during the review.



Acronyms used above: NFP = Not-for-profit, PBE = Public Benefit Entity, INPAS = International Non-Profit Accounting Standard, CP = Consultation Paper, ED = Exposure Draft, IFRS for SMEs = International Financial Reporting Standards for Small and Medium-sized Entities, and PS = Public Sector.

25. The ASF originated from the broader review of New Zealand's statutory financial reporting requirements that began in 2009. That reform process addressed both the legislative question of which entities should be required to prepare financial statements in accordance with XRB standards and the related standards-setting question of what accounting standards should apply to those entities. As noted above, the current review is focused on the latter question — the strategy for determining the applicable accounting standards — while the legislative reporting requirements sit outside the scope of this review.

26. A central feature of the reform was the move away from New Zealand's previous sector-neutral approach. In 2009, the Auditor-General issued a discussion paper flagging IFRS as not suitable for public sector and not-for-profit entities and setting out alternative framework options. The development of the ASF recognised that entities operating for financial return and PBEs have different objectives, accountability relationships and user needs, and that a single set of accounting standards may not adequately serve all reporting entities. This led to the

development of a sector-based framework (refer to Appendix 1), supported by different suites of standards and a tiered structure to scale reporting requirements across New Zealand's diverse reporting population.

27. The ASF was developed through an extensive consultation process between 2009 and 2012 and was approved in April 2012, refer to our website for the recent history of our ASF. It became effective progressively across sectors from 2014 to 2015. Further detail on the current structure and operation of the ASF is set out in paragraphs 11–14 above. This history is relevant to the current review because the sectors, tiers and suites of standards now being assessed were established to respond to specific policy objectives and stakeholder needs, which provide an important reference point for considering whether the ASF remains fit for purpose.

28. Following this, a targeted review of the ASF was undertaken in 2019–2020 to "check in" on whether the ASF was functioning as anticipated, achieving its original objectives, and whether any refinements were needed in response to unintended consequences, new developments or emerging issues. The review specifically considered IPSAS alignment for PBEs, harmonisation with Australia for Tier 2 for-profit disclosures, and whether the PBE tier size criteria needed to be revisited.

29. The feedback received did not identify significant unintended consequences or developments requiring changes to the ASF at that time. The XRB therefore concluded that no changes were required, while noting the importance of continued IPSAS alignment, appropriate flexibility for New Zealand-specific circumstances, and continued consideration of Australia–New Zealand harmonisation. The targeted review also noted that it was too soon to undertake a fulsome ASF review and recommended that the fundamental elements of the ASF be reviewed once the framework had been effective for at least 10–15 years. Link to the feedback statement.

30. The tier size thresholds in the ASF have been periodically amended to reflect legislative changes and stakeholder feedback, in March 2024 the PBE threshold was adjusted for inflation and other factors. Following this in June 2026, the expenses threshold for for-profit public sector entities was increased from $30 million to $33 million to align with the PBE Tier 1 threshold, mandatory for periods beginning on or after 1 January 2027.

31. While the ASF's background and progression provide important context, the review must also take account of broader developments that may influence the ASF's future direction. These developments highlight evolving international practices and domestic reporting needs, and include:

   - IFRS for SMEs, first issued in 2009 and updated periodically with its third edition issued in 2025;
   - Introduction of PBE FRS 48 Service Performance Reporting, effective for reporting periods beginning on or after 1 January 2022, with subsequent consultation in 2025 on implementation challenges for Tier 1 and Tier 2 NFP entities. The feedback statement confirmed support for consistent, high-quality service performance reporting, while identifying challenges relating to clarity of requirements, reporting maturity, sector differences and assurance evidence. In response, the XRB developed additional practical guidance material, including factsheets for Tier 1 and Tier 2 PBEs, which is available on the Tier 1 & Tier 2 Service Performance Reporting Guidance page.
   - Updates to Tier 3 and Tier 4 PBE standards and reporting templates in May 2023;
   - The NZASB's June 2024 decision not to adopt the IASB's IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, as the existing Reduced Disclosure Regime (RDR) was

considered sufficient, and the adoption of IFRS 19 would not offer substantial improvements over the existing RDR framework; and

- Publication of the [International Non-Profit Accounting Standard (INPAS)] in October 2025, based on IFRS for SMEs and designed specifically for the NFP sector.

32. In addition to these developments, harmonisation and collaboration with Australia remain central to the XRB's strategy, given the benefits of consistency for cross-border economic activity and comparability for users. Full alignment is neither necessary nor always appropriate, particularly for PBEs, but we weigh the benefits of aligning with Australian developments against the need for standards tailored to New Zealand's regulatory and sectoral context.

    - Both countries align Tier 1 for-profit standards with IFRS as well as recognition and measurement principles for Tier 2, though disclosure concessions differ.
    - However, significant divergence exists in the PBE space - New Zealand applies IPSAS-based standards across multiple tiers, while Australia uses transaction-neutral standards for Tier 1 and Tier 2 based on IFRS and recently issued a Tier 3 standard for smaller NFPs.

33. The developments in the financial reporting landscape underscore the complexity of considerations for the review of the ASF and the importance of any adjustments delivering clear benefits without imposing disproportionate costs.

Balancing costs and benefits of change

34. The review of the ASF must recognise that New Zealand's framework is deeply embedded (being effective for all entities since 2015), and we appreciate while any change will impose costs on users, preparers, and auditors, the review will examine whether the framework continues to meet user needs and whether it achieves an appropriate balance between the benefits of reporting and the costs imposed on preparers and others. The review presents opportunities to future-proof financial reporting for New Zealand.

35. This section outlines key risks that could increase costs and complexity, as well as opportunities that could deliver meaningful benefits. These are not exhaustive but represent the most significant considerations that may inform the assessment of alternatives as part of the ASF review.

    Risks

    (a) *International alignment vs local relevance* – Proposed changes may create tension between maintaining international alignment and ensuring standards remain fit for purpose domestically. Any adjustments must be well justified and preserve the XRB's strategy of being internationally aligned and locally relevant.

    (b) *Stakeholder and ministerial engagement risks* – The review is strategically significant and subject to Section 31 and 32 of the FRS (refer to Appendix 3) and inputs from the Minister of Commerce and Consumer Affairs, and Ministry of Business, Innovation and Employment (MBIE).

    (c) *Workforce capacity and capabilities* – The accounting workforce in New Zealand has finite capacity. Changes to the ASF could exacerbate these pressures, require additional expertise and reduce overall resilience.

    (d) *Complexity and fragmentation risk* – Beyond workforce constraints, the ASF is already complex, relative to the size of New Zealand's economy. Any move toward introducing new frameworks or increasing fragmentation could risk adding unnecessary complexity, complicate consolidated reporting and undermine the simplicity needed for efficient application. Careful evaluation is essential before making changes to avoid unnecessary disruption.

(e) *Data gaps and evidence constraints* – Sound decisions depend on better visibility of reporting entity populations and user needs. Current data limitations on the population and user needs could impede proportionate and informed adjustments.

Opportunities

(a) *Future-proofing New Zealand's financial reporting system* – Revisiting foundational assumptions provides an opportunity to ensure the ASF remains responsive to evolving economic conditions, international developments, entity structures and user expectations. This supports a reporting system that remains fit for purpose over the long term, including through threshold settings that continue to capture the intended reporting populations.

(b) *Supporting confidence in New Zealand's reporting and accountability environment* – A fit-for-purpose ASF supports high-quality, decision-useful financial reporting across the for-profit, public sector and not-for-profit sectors. This contributes to confidence among investors, creditors, funders, donors, regulators and other users of financial reports.

(c) *Supporting capital access and economic credibility* – Maintaining an internationally credible and locally relevant reporting framework can support New Zealand entities' access to capital, ease of doing business, comparability with overseas markets, and confidence in New Zealand's broader economic and public accountability settings.

(d) *Improving proportionality and reducing unnecessary compliance burden* – The review provides an opportunity to refine sectors, tiers, thresholds and standards frameworks so that reporting requirements are better aligned with entity size, complexity, accountability and user needs. This can reduce unnecessary cost while preserving the quality and usefulness of reporting.

(e) *Strengthening system coherence and capability* – Simplifying or better aligning parts of the ASF could reduce fragmentation, improve understandability for users and preparers, and support more sustainable capability across the accounting, assurance and wider reporting ecosystem.

(f) *Improving evidence for future reporting policy decisions* – Evidence gathered through the review can improve understanding of reporting entity populations, user needs, implementation costs and threshold impacts. This can support better decisions during this review and provide a stronger evidence base for future financial reporting policy and standard-setting decisions.

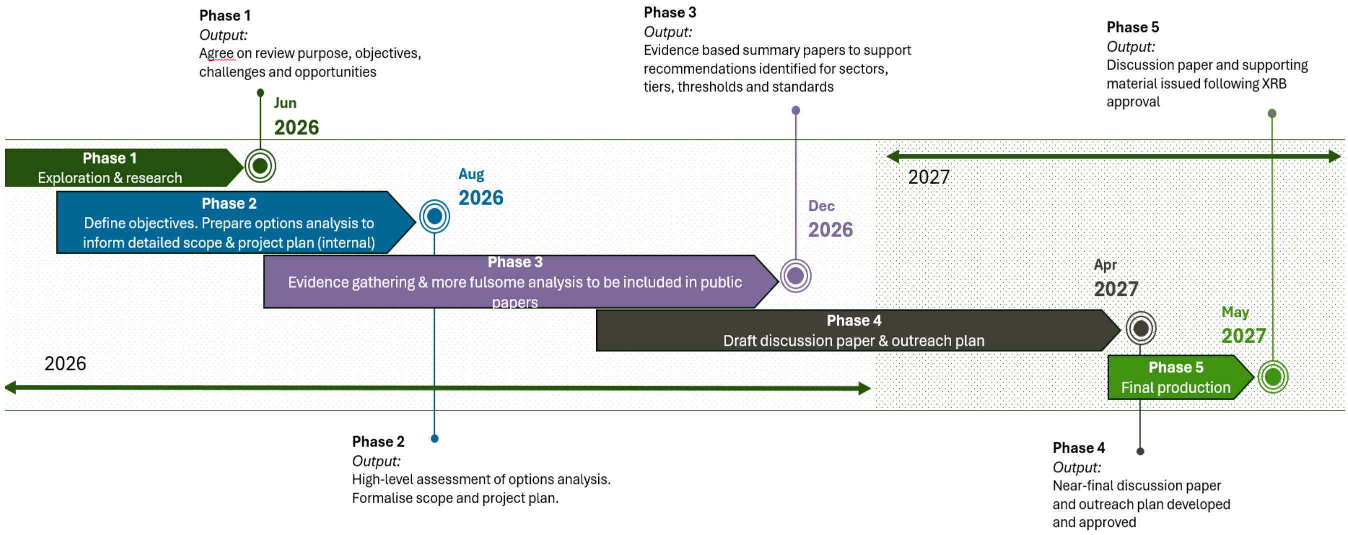
(g) *Supporting workforce capability and system resilience* – A clearer and more coherent ASF could reduce unnecessary fragmentation, support mobility across sectors, and help sustain the capability needed for high-quality financial reporting in New Zealand.

(h) *Supporting the XRB's strategic stewardship of the ASF* – The review provides an opportunity for the XRB to clearly articulate the future direction of the ASF and demonstrate how its financial reporting strategy supports high-quality, decision-useful reporting in the public interest.

36. These considerations will be used as an overlay when assessing the viable options, alongside the specific assessment criteria developed for frameworks, sectors, tiers and thresholds.

Approach to the review

37. The ASF review is being undertaken through a staged approach.



38. The first stage focused on developing a shared understanding of the current environment in which the ASF operates, including the legislative framework, the current structure and operation of the ASF, the broader financial reporting landscape, and relevant domestic and international developments. This context is set out in the preceding sections and provides the foundation.

39. The review then moved into an exploratory phase focused on the key elements of the ASF, including the frameworks, sectors, tiers and thresholds. These matters were discussed with the NZASB and XRB Board to test the key issues, identify areas requiring further analysis, and understand the viable options over which a more fulsome assessment could be performed.

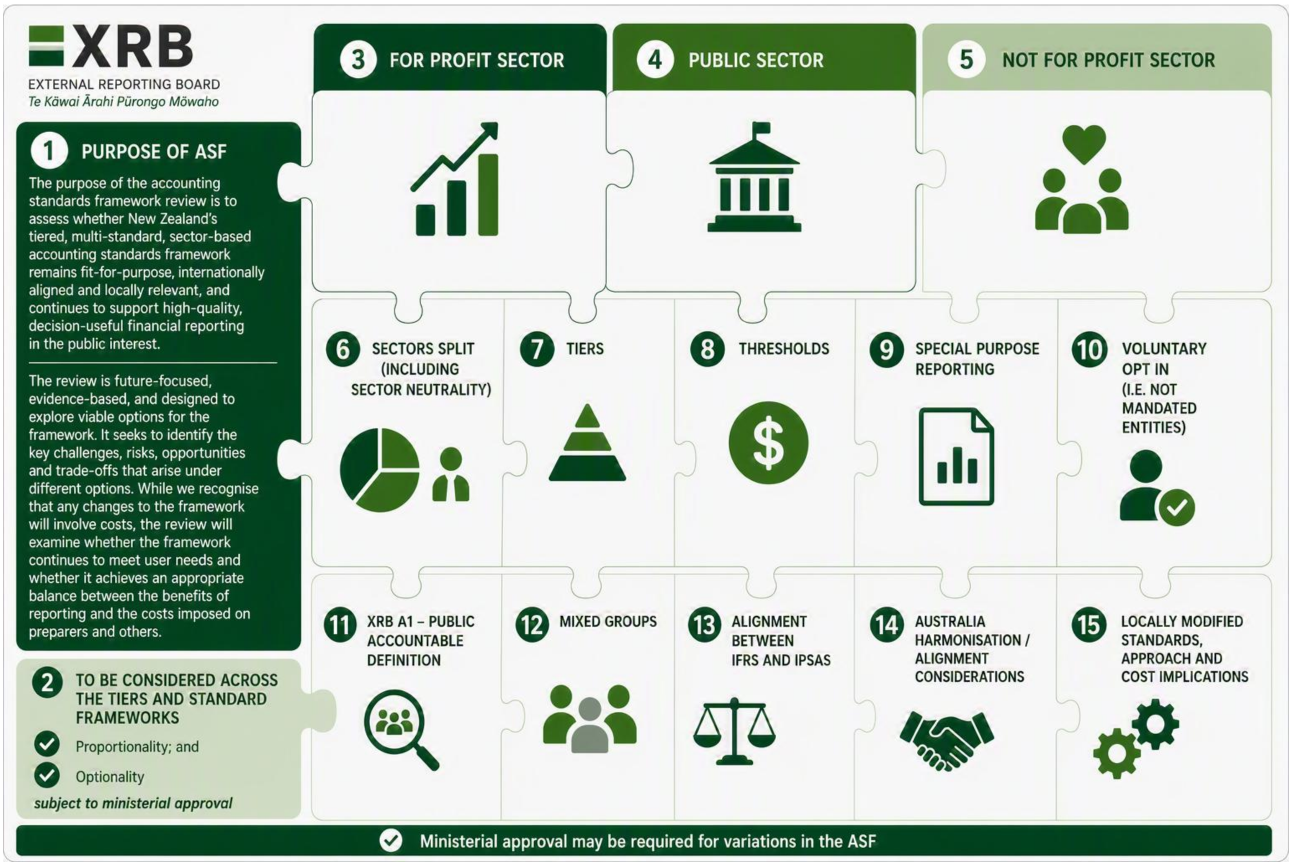
40. The review is now progressing into detailed assessment and evidence gathering. This phase will involve a more fulsome analysis of the viable options identified through the exploratory phase, including their implications for users, preparers, auditors, standard setters and other stakeholders. The analysis will be informed by available data, stakeholder feedback, international developments, Australia–New Zealand harmonisation considerations and the statutory matters that the XRB must have regard to if proposing any variation or replacement of the ASF. Further information on the options analysis approach is set out below.

41. The detailed analysis will be brought to the NZASB through public papers as the review progresses. These papers will support Board discussion and direction on the key elements of the ASF with suggested drafts for discussion paper information and the related questions on the relevant topic. At this stage these Board papers are intended to form our views to ultimately put into a discussion paper expected in May 2027. As the ASF is a complicated project with multiple interdependencies within the elements, we envision iterations and deliberations of ideas to evolve over the coming months, and do not propose these workpapers to be the final position of a matter until such time as the discussion paper is released for public consultation.

42. Staff encourage the public to engage with the accounting standards team throughout this project if there are specific ASF elements you would like us to consider. During phase 1 staff identified several elements within the ASF that will be explored as part of this review. Due to the interdependencies of the various elements, staff and the Board reserves the right to revisit any tentative decision made as part of the discussions as other elements are explored and considered. The current ASF applies across a diverse range of reporting entities. While the framework is commonly described as a two-sector model (for-profit entities and PBEs), in

practice entities are generally understood and operate within three reporting groups with distinct features. For this reason it has been determined that these three reporting groups being for-profit, public sector and not-for-profit entities will be considered separately for purposes of the ASF review.

The key elements being considered (at this stage) within this review are depicted below:



43. The remaining stages of the project are outlined in the overall project next steps below.

Options analysis

44. The detailed assessment phase uses a viable options analysis to test the key elements of the ASF, including the applicable frameworks, sectors, tiers and thresholds. This approach is appropriate because each element may have more than one possible future direction, and enables staff to focus detailed assessment on options that are credible, coherent and capable of being implemented in New Zealand, while still testing those options against the review's objectives, relevant evidence and the statutory matters that the XRB must have regard to.

45. For the options analysis, staff followed the following methodology:

The methodology/approach for the options analysis

1. Understanding the characteristics of the entities within each tier.
2. Considers legislative mandates, constraints, and key drivers for financial reporting.
3. Considers the information needs of users and preparers.
4. Considers international practice and international alignment.
5. Identifies key challenges with the current standards.
6. Identifies and evaluates viable framework options against consistent key criteria, assessing the relative pros, cons and trade-offs
7. Make recommendations for NZASB and XRB consideration

46. For the framework options analysis, staff followed a staged process of identifying possible standards frameworks, filtering those options to determine which were viable in the New Zealand context, and then assessing the viable options against common criteria. In determining viability, staff considered matters such as the purpose of the ASF, the current reporting population, international alignment and local relevance, Australia–New Zealand harmonisation considerations, and practical implications for users, preparers, auditors and standard setters.

47. Each viable framework option was assessed by considering its key advantages and disadvantages and comparing it against the agreed assessment criteria. The key criteria included an additional criteria for Tier 2 to Tier 4 entities for interoperability and the technical fitness criteria was adjusted to make it applicable to the public sector and NFP entities (refer to key criteria in the tables below). This provides a consistent basis for identifying key trade-offs and supporting transparent Board discussion before the options and related consultation questions are reflected in the discussion paper.

Key criteria used for all frameworks

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

Variations to - key criteria for Tier 2 entities and below, and technical fitness for public sector and NFP entities

Key criteria-	Move between tiers	Technical fitness	Technical fitness
This means:	Interoperability with Tier 1 (accounting and workforce)	Technical fitness; coherent suite capable of handling *public sector transactions* developed with user needs in mind (preparers and user focus) – *focused on benefits*	Technical fitness; a coherent suite capable of *faithfully representing not-for-profit transactions and accountability relationships*, developed with user needs in mind (preparers and user focus)
Applicable to:	***Tier 2-Tier 4 entities***	***Public sector entities***	***NFP entities***

48. The sectors analysis applies a similar viable options approach. Staff identified feasible sector models informed by the current ASF, user needs, international approaches and observed challenges, and considered each option against key design tensions and its strength and weaknesses.

49. The tiers analysis considers whether the number, purpose and boundaries of the current tiers remain appropriate within each sector. Staff identified feasible tier structures for the for-profit and PBE workstreams and assessed their strengths, weaknesses and implications by reference to user needs, proportionality, international alignment, transition impacts and the coherence of the ASF.

50. The thresholds analysis follows from the sector and tier analysis. Staff are first considering the most appropriate threshold indicators and models, rather than setting specific values, taking into account legislative settings, population characteristics, user needs, stewardship responsibilities, entity capability and practical application.

Overall project next steps

51. Staff will continue progressing the detailed assessments identified through the exploratory phase. The outputs from this work will be brought to the NZASB with a focus on obtaining direction on the options and consultation questions to be included in the discussion paper.

52. Staff notes that each of the key element's detail assessment paper will be included in the Board papers over the coming months.

53. Conclusions will be communicated with the XRB at key milestone phases. Following completion of the detailed assessments, staff will consolidate the drafted discussion paper and questions.

54. A draft outreach plan will also be shared with the NZASB and XRB which will identify how staff propose to engage with relevant sectors, tiers and user groups during consultation.

55. The final stage will involve seeking the necessary NZASB feedback and XRB Board approvals to release the discussion paper for public consultation. The current project timeline anticipates release of the discussion paper in May 2026, subject to completion of the detailed assessments, Board direction and any required approvals.

Feedback sought from the Board

56. Overall, this memo is intended to provide a shared foundation for the next phase of the review. It brings together the legislative context, history of the ASF, relevant developments, risks and opportunities, and the approach to options analysis, so that future public papers can focus on the substantive choices for each element of the framework.

57. Staff are seeking the Board's feedback on whether the background, context and proposed approach provide an appropriate foundation for the detailed assessments and public papers that will follow.

Question for the Board
Does the Board have any feedback on this memo, including whether any additional matters should be included?

Appendices

- Appendix 1: ASF sectors definitions and classifications guidance
- Appendix 2: Legislative requirements to apply XRB Accounting Standards
- Appendix 3: Section 31 and 32 of the FRA
- Appendix 4: Background slides

Appendix 1: ASF sectors definitions and classifications guidance

Current two-sector model

Sector Definitions per XRB A1 paragraph 6

The definitions used to determine whether an entity falls within the for-profit or PBE accounting standards frameworks are as follows:

Public Benefit Entity (PBE) - *A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.*

For-Profit Entity - *Any reporting entity that is not a public benefit entity.*

Public sector PBEs – *are PBEs that are public entities as defined in the Public Audit Act 2001 (Section 5) which includes seven types of entities including the Crown, offices or parliament and parliamentary agencies, etc.*

Not-for-profit PBEs – *are PBEs that are not public sector PBEs.*

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001

Classification guidance – XRB A1 Appendix A paragraphs 1-38

Classification based on primary objective (substance over form)	Indicators used to assess classification	Classification may require judgement
• Legal form is not determinative • Consideration is at the reporting entity level which may differ from group classification	• Stated objectives • Nature of benefits, including the quantum of expected financial benefits • Primary beneficiaries of the benefits • Nature of equity interest • Purpose and use of assets	Assessment may require judgement, particularly where objectives are unclear or mixed. Conflicting indicators – assess collectively and focus on overall substance of purpose. Consider relative significance of each indicator (some may be less significant).

Changing classifications – XRB A1 Appendix A paragraphs 39-40

Classification may change if circumstances or objectives change. This requires reassessment of applicable reporting tier (XRB A1) and application of accounting requirements of the new classification, including first-time adoption.

Appendix 2: 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).

Appendix 3: Section 31 and 32 of the FRA

31 *Minister may approve variation or replacement of strategy*

1) *The Minister may, after receiving a proposal for the variation or replacement of the strategy prepared by the Board under section 32, either approve or decline to approve the variation or replacement.*
2) *The Minister may decline to approve the variation or replacement only if, in his or her opinion,—*
    a) *the Board has not had sufficient regard to the matters specified in section 32(1)(a); or*
    b) *the Board has not adequately consulted on the proposal under section 33.*

32 *Process for preparing proposals to vary or replace strategy*

1) *In preparing a proposal for the variation or replacement of the strategy, the Board must—*
    a) *have regard to—*
        i) *the purpose referred to in section 29; and*
        ii) *the advantages and disadvantages of placing different classes of reporting entities within different tiers of financial reporting; and*
        iii) *which FMC reporting entities are considered to have a higher level of public accountability under section 461K of the Financial Markets Conduct Act 2013; and*
    b) *ensure that the strategy, after the variation or replacement takes effect,—*
        i) *specifies the qualifying criteria for each tier of financial reporting; and*
        ii) *describes the financial reporting requirements that will apply for each tier of financial reporting; and*
        iii) *includes any other prescribed matters.*
2) *The description under subsection (1)(b)(ii) may refer to—*
    a) a set of standards (for example, International Financial Reporting Standards and International Public Sector Accounting Standards):
    b) specific standards:
    c) accounting policies, principles, concepts, or methods (for example, the principles of accrual accounting):
    d) any combination of the matters in paragraphs (a) to (c).
3) *A proposal for the variation or replacement of the strategy must specify the Board's reasons (including why the variation or replacement is considered to be appropriate).*

Appendix 4:

Background and context to the Accounting Standards Framework (ASF)

The XRB mandate and purpose

Our mandate

- An independent Crown entity with statutory functions prescribed by Section 12 of the Financial Reporting Act 2013
- Develops and issues financial reporting, climate, auditing and assurance standards
- Issues authoritative notices that support the operation of New Zealand's reporting frameworks
- Develops strategies for issuing and applying those standards, including the Accounting Standards Framework (ASF)
- Engages with domestic and international standard-setters so New Zealand's reporting stays internationally informed and credible

Our purpose

- To promote trust and confidence, transparency and accountability through high-quality external reporting and assurance
- Establishes and maintains robust frameworks and standards that are internationally credible and locally relevant
- Designed to support trusted, informative reporting that meets users' needs
- The ASF is a key component — applying reporting requirements to different types of entities and balancing the benefits of information with the costs of reporting

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

OUR PURPOSE
Promoting trust and confidence, transparency and accountability through high-quality external reporting and assurance.

OUR STRATEGY
Internationally aligned, locally relevant.

The New Zealand External Reporting Environment

Where does the ASF fit within the broader New Zealand external reporting environment?

General Purpose Financial Report (GPFR)
and climate reporting prepared in accordance with standards issued by the XRB

THE GOVERNMENT
Who reports?

Statutory Reporting Framework

- Financial statement preparation / Generally Accepted Accounting Practice (GAAP)
- Filing and publication requirements
- Audit and assurance requirements

Legislation

- Financial Reporting Act 2013
- Companies Act 1993
- Financial Markets Conduct Act 2013
- Public Finance Act 1989
- Charities Act 2005
- Other sector legislation

Future Legislative Reform

The XRB considers whether legislative changes require amendments to reporting and assurance frameworks.

THE XRB

WHAT TO REPORT

1 Accounting Standards Framework (ASF)

The XRB's strategic approach to setting accounting standards through the application of XRB A1.

- Multi-sector approach
- Tiered approach
- Uses IFRS Accounting Standards and IPSAS as the basis for NZ standards
- Develop local standards

2 Accounting Standards

Establishes the specific requirements for the preparation of GPFR, including standards for different sectors and tiers.

3 Climate Reporting Standards

Requirements for climate-related disclosures.

- New Zealand Climate Standards (NZ CS)
- Climate-related risks and opportunities
- Decision-useful climate information

HOW TO AUDIT OR REVIEW

4 Auditing and Assurance Standards Framework

The XRB's strategic approach to setting auditing and assurance standards.

5 Auditing and Assurance Standards

Requirements for:

- Financial statement audits
- Assurance engagements
- Climate-related assurance engagements

6 Quality Management and Ethical Standards for Assurance Practitioners

Support quality, integrity and professional ethics in assurance engagements.

OTHER REPORTING OBLIGATIONS

Other reporting

Established through legislation, regulations or by other means for other information reported in the annual report and/or other external reports.

- Information disclosures
- Annual reports
- Integrated reporting etc.

Special Purpose Financial Statements

Entities who have no statutory requirements to prepare GPFR may still need to prepare financial statements for tax, governance, etc.

OUR STRATEGIC PRIORITIES

Fit for purpose
Ensure our reporting is fit for purpose

Supporting adoption and implementation
Support effective adoption and implementation

Integrated reporting
Continue the focus on integrated reporting

Public benefit entities
Contribute to the public interest

Please note: this diagram is a high-level overview of the NZ reporting environment and is not intended to be comprehensive.

Why are we doing a review of the ASF?

- **2012**
- **2014/2015** – ASF became effective
- **2019** – Targeted review
- **2026** – Current ASF review commenced

The Foundation

- ASF approved in 2012 to provide structured reporting
- Came into effect over Jul 2014 – Apr 2015
- 2019 high-level review confirmed it was operating as intended

A changing landscape

- Significant shifts in international and domestic contexts since 2012
- Accounting standards have matured and evolved significantly
- User needs and reporting expectations have shifted globally

Questions in 2026

- Is the framework fit-for-purpose and for the future?
- Is it meeting the evolving needs of users of financial reporting?
- Does it appropriately balance costs and benefits?
- Is it sufficiently locally relevant?

Purpose of the ASF review

Purpose of the ASF review

The purpose of the accounting standards framework review is to assess whether New Zealand's tiered, multi-standard, sector-based accounting standards framework remains fit-for-purpose, internationally aligned and locally relevant, and continues to support high-quality, decision-useful financial reporting in the public interest.

The review is future-focused, evidence-based, and designed to explore viable options for the framework. It seeks to identify the key challenges, risks, opportunities and trade-offs that arise under different options. While we recognise that any changes to the framework will involve costs, the review will examine whether the framework continues to meet user needs and whether it achieves an appropriate balance between the benefits of reporting and the costs imposed on preparers and others

Scope of the review

What is out of scope for this review

To keep the review focused on the structure and operation of the ASF itself, the following matters have been agreed as out of scope.

Out-of-scope matter	Implication for this review
Legislative reporting requirements	The review will not consider the legislative requirements that determine which entities must prepare financial statements in accordance with XRB standards.
Detailed standard-setting requirements	The review will not reconsider the detailed recognition, measurement, presentation and disclosure requirements within existing standards, including RDR concessions and the Conceptual Framework, or whether particular standards or disclosures are mandatory for certain sectors, tiers or entity types (such as service performance reporting for PBEs).
Assurance and professional standards	The review will not consider auditing, assurance, professional or ethical standards.
Climate Standards	The review will not consider the XRB's Climate Standards.
Broader reporting architecture	The review will not consider the XRB's broader architecture of reporting, other than the ASF.

Our current ASF

1. Two-sectors
Different suites of accounting standards for two distinct sectors based on their primary objectives:
- **For-profit entities**
- **Public benefit entities (PBEs)**
    - Public sector PBEs
    - Not-for-profit PBEs

2. Tiered approach
Different accounting requirements for each tier based on cost-benefit considerations:
- For-profit entities – **two tiers**
- PBEs – **four tiers**

3. Multi-standards
- For-profit entities — standards based on **IFRS Accounting Standards**
- PBEs — standards for Tiers 1 and 2 PBEs are based primarily on **IPSAS Standards**, and the XRB develops **domestic simple format standards** for Tiers 3 and Tier 4 PBEs.

Background – rationale for sector approach in the ASF

New Zealand moved from a single set of standards to a multi-sector and tiered approach in 2012, after recognising that a single for-profit focused framework was not considered sufficient to meet the differing needs of users across all entity types.

BEFORE 2012

Sector-neutral approach

- Adoption of IFRS in New Zealand occurred mid-2000s
- During that time, one set of standards applied to all entities.
- These standards were based on International Financial Reporting Standards (**IFRS**) – issued by International Accounting Standards Board (**IASB**)
- IFRS is designed for investors and commercial profit-making companies — not for schools, hospitals, or charities.

2009 – 2012

Concerns raised at the time

- In 2008, it became clear that entities operate with fundamentally different objectives and accountability relationships.
- In 2009, the Auditor-General issued a discussion paper flagging IFRS as not suitable for public sector and not-for-profit entities and setting out alternative framework options – i.e., the multi-sector approach.
- IFRS lacked guidance for public sector and NFP transactions (e.g. tax revenue, grants, donations etc.).

2012 ONWARDS

Multi-sector approach

- NZ introduced distinct PBE Standards based on IPSAS for public benefit entities, while for-profit entities continued using NZ IFRS.
- Public sector and not-for-profit entities are combined into a single PBE sector — reflecting shared focus on community benefit and service performance accountability.
- The multi-sector framework remains in place today — with the XRB now reviewing whether the sector model is fit for purpose.

The current Accounting Standards Framework reflects a move away from a single set of standards, recognising that entities operate with fundamentally different objectives and accountability relationships. Refer to Appendix 3 which sets out the sector definitions.

A targeted review in 2019–2020 confirmed the ASF was operating as intended

Background – rationale for tiers and thresholds approach in the ASF

The Accounting Standards Review Board (ASRB) 2009 Discussion Paper (DP) suggested that tiers and thresholds are necessary to give effect to the cost-benefit principle. A tiered reporting framework allows reporting requirements to be proportionate to user needs and entity circumstances, while maintaining consistency and reducing compliance costs where the benefits of full reporting are lower. The feedback on this DP was deliberated by the ASRB during 2010 / 2011 which specifically considered the tiers framework.

The ASRB/XRB 2011 Position Paper concluded that while user needs justified a separate standards framework for PBEs, for-profit entities should continue to be based on IFRS because IFRS had been adopted globally and was considered essential for New Zealand entities competing in international capital markets. Accordingly, a two-tier IFRS-based framework with a Reduced Disclosure Regime (RDR) was proposed for the for-profit sector.

↓

The 2011 consultation paper on the ASF for for-profit entities built on the 2009 Discussion Paper by proposing a two-tier for-profit framework. The proposal retained IFRS as the foundation for for-profit reporting, reflecting the importance of international credibility, comparability and trans-Tasman harmonisation. It proposed that Tier 1 entities apply full NZ IFRS, while Tier 2 entities apply the same recognition and measurement requirements but with reduced disclosure requirements through a RDR. The rationale was to maintain high-quality, internationally aligned reporting while providing a more proportionate reporting burden for entities without public accountability.

Background – rationale for for-profit tiers and thresholds approach in the ASF

This was followed by the proposals for the New Zealand ASF which was approved by the Minister in April 2012 and formalised a two-tier framework for for-profit entities based on IFRS. Entities with public accountability were required to apply full NZ IFRS (Tier 1), while entities without public accountability could apply NZ IFRS with RDR concessions (Tier 2). The framework reflected the view that cost-benefit considerations could be addressed through disclosure relief while maintaining consistent recognition and measurement requirements and preserving alignment with international reporting requirements.

In addition, large for-profit public sector entities were included in Tier 1, reflecting their greater economic significance and public accountability. The ASF and XRB A1 subsequently established a total expenses size threshold of $30m (recently updated to $33m) for determining when a for-profit public sector entity is considered large.

At that time, the 2012 proposals also retained Tier 3 and Tier 4 for-profit reporting requirements as part of the transition to the new ASF. Tier 3 entities applied NZ IFRS Differential Reporting and Tier 4 entities applied Old GAAP. These tiers remained in place until the new legislative framework came into effect on 1 July 2015, after which the for-profit sector moved to the current two-tier IFRS-based framework.

Links: Accounting Standards Framework » XRB and Recent history of our Accounting Standards' Frameworks » XRB

Our current ASF: the standards for different entities

For profit sector	PBE Sector	
For-profit entities	**Public sector entities**	**Not-for-profit entities**

For-profit entities

T1 & T2 for-profit entities

IFRS Foundation

Required or permitted in 161 jurisdictions

Public sector entities / Not-for-profit entities

T1 & T2 PBEs

IPSASB

Converged with IFRS to the extent suitable for the public sector

Adopted or partially adopted in 86 jurisdictions*

*includes adoption of cash basis IPSAS

T3 & T4 PBEs

Locally developed accounting standards

These frameworks provide the foundation for the development of New Zealand standards. Additional local standards are incorporated to address specific domestic reporting requirements.

Financial reporting requirements based on: Public accountability | Economic significance | Separation between owners and governing body

Accounting Standards Framework (ASF)

XRB levers

1. Two-sector approach

- For-profit entities
- Public Benefit Entities (PBEs)
  - Public sector PBEs
  - Not-for-profit PBEs

2. Tiered approach

Different accounting requirements based on cost-benefit considerations.

- For-profit entities – 2 tiers
- PBEs – 4 tiers

3. Multi-standards

For-profit entities:
Standards based on IFRS Accounting Standards.

PBEs:
Tier 1 and Tier 2 standards primarily based on IPSAS standards.

Domestic simple format standards developed by the XRB for Tier 3 and Tier 4 PBEs.

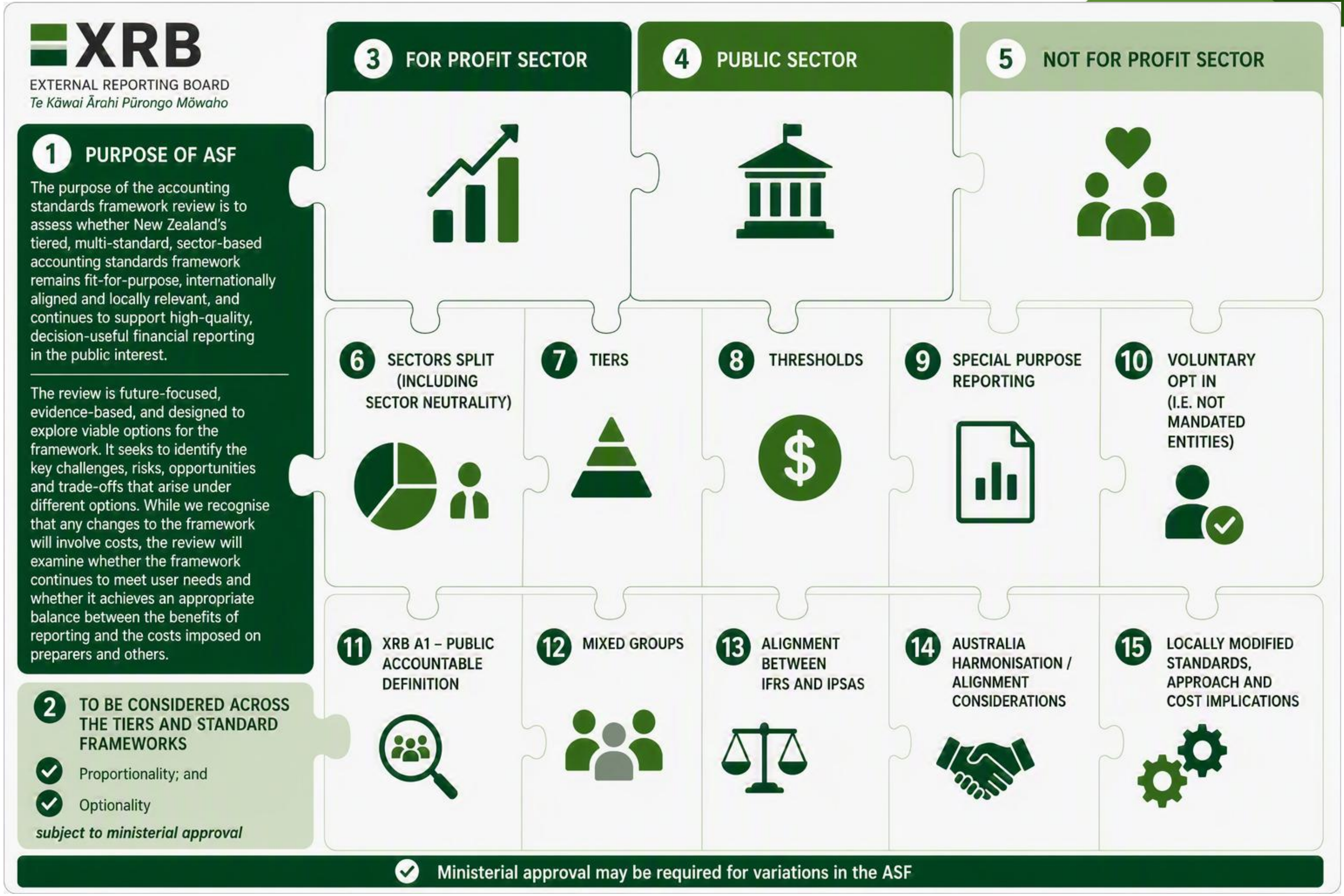
An entity identifies its sector and tier, then applies the applicable standards.

	For-profit entities	Framework
Tier 1	• Public accountability (as defined in XRB A1); or • Large public sector for-profit entity • Total expenses > $33 million	NZ IFRS
Tier 2	• No public accountability • For-profit public sector entity with total expenses ≤ $33 million	NZ IFRS RDR

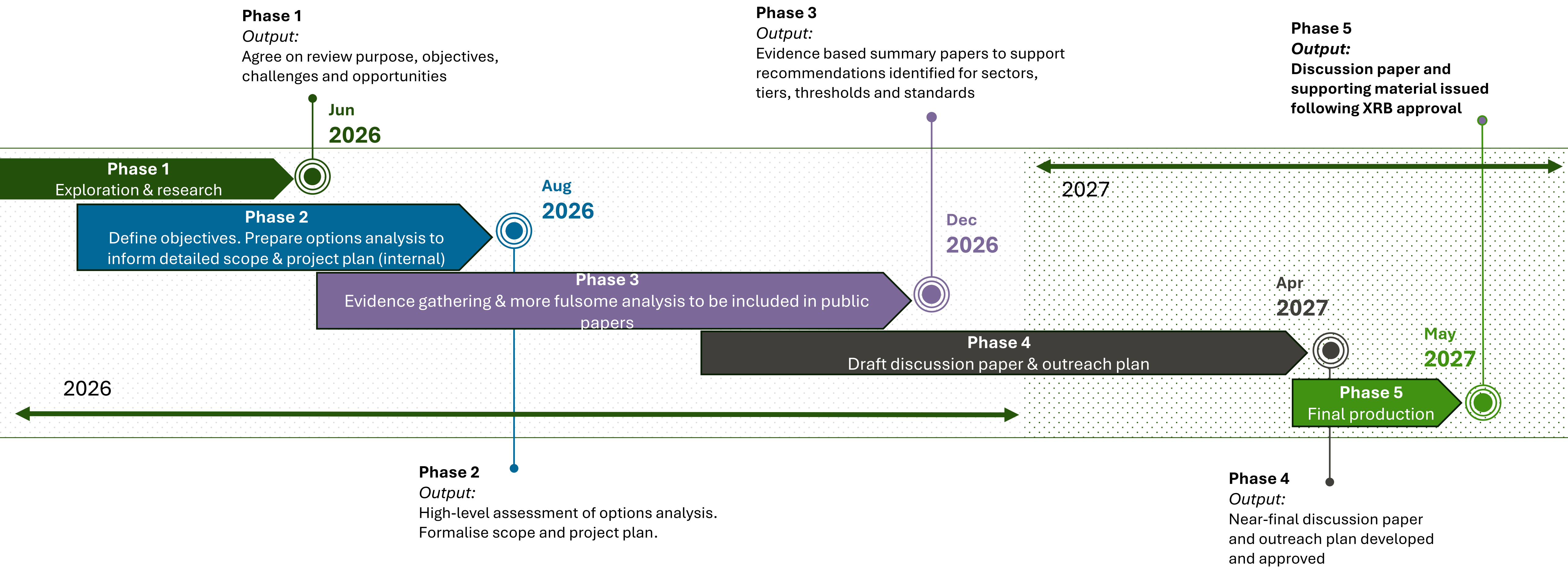
	PBE public sector and not-for-profit entities	Framework
Tier 1	• Public accountability; or • Large PBE with total expenses > $33 million	PBE Standards
Tier 2	• No public accountability • Total expenses ≤ $33 million	PBE Standards RDR
Tier 3	• No public accountability • Total expenses ≤ $5 million	Tier 3 Standard
Tier 4	• No public accountability • Permitted by law to use non-GAAP cash accounting	Tier 4 Standard

*Ministerial approval may be required for changes to sectors, the number of tiers, and the international standards used as the basis for New Zealand standards (Financial Reporting Act 2013, sections 31 and 32).

ASF review – elements we will consider and analyse



Timeline and phases of the ASF review



Phase 3 - The methodology/approach for the options analysis

We have created a standardised approach to the phase 3 detailed assessments, under which the options are analysed as included below.

The options analysis is designed to identify alternative frameworks that could reasonably be explored for potential adoption in New Zealand.

1. Understanding the characteristics of the entities within each tier.

2. Considers legislative mandates, constraints, and key drivers for financial reporting.

3. Considers the information needs of users and preparers.

4. Considers international practice and international alignment.

5. Identifies key challenges with the current standards.

6. Identifies and evaluates viable framework options against consistent key criteria, assessing the relative pros, cons and trade-offs

7. Make recommendations for NZASB and XRB consideration

End of agenda item 6.1a