Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	6 August 2026
Subject:	**Analysis of Sectors – Review of the ASF**
Date:	23 July 2026
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☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this memo is to seek Board agreement on the sector options that should be included in the Discussion Paper, and the respective direction of the consultation questions for stakeholder feedback.
2. This paper presents staff analysis of sector structure options for the ASF, taking into account the exploratory discussions with the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB) to date.
3. The paper focuses solely on sector structure within the ASF. It does not consider tiers, thresholds, or detailed standards-level requirements, except where necessary to explain the implications of particular sector design options.

Recommendations

4. The Board is asked to:
   (a) NOTE and provide FEEDBACK on the supporting analysis of the sector structure and options;
   (b) AGREE on sector options for inclusion in the ASF Discussion Paper;
   (c) Provide FEEDBACK on proposed framing of the analysis of sector options for inclusion in the ASF Discussion Paper; and
   (d) Provide FEEDBACK on the direction of the proposed sector consultation questions for inclusion in the ASF Discussion Paper.

Background

5. 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.

Overview of the current sector model

6. The current ASF is based on a purpose driven two-sector model, with entities classified as either for-profit entities, or Public Benefit Entities (PBEs).

7. An entity that has a statutory requirement to prepare, or opts under an enactment to prepare, a general purpose financial report (GPFR) must determine its sector classification in accordance with XRB A1 *Application of the Accounting Standards Framework*.

Sector	Classification basis	Standards framework
For-profit	Entity is not a PBE	NZ International Financial Reporting Standards (NZ IFRS)
PBE	Meets the PBE definition (refer to paragraph 8) 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

8. PBEs are defined as 'reporting entities 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'. Whereas for-profit entities are defined as 'reporting entities that are not PBEs'.

9. If a reporting entity is a PBE, it must then determine whether it is a public sector PBE or a not-for-profit PBE. A public sector PBE comprises public entities, as defined in the Public Audit Act 2001, and all Offices of Parliament. A not-for-profit PBE is any PBE that is not a public sector PBE. Although the reporting requirements for public sector and not-for-profit PBEs are largely aligned, the distinction is retained because the sectors are subject to different legislative frameworks and operate in different environments, which gives rise to some sector-specific requirements and terminology.

10. Once a reporting entity has determined its sector classification, it must report in accordance with Tier 1 accounting requirements for that sector, unless it meets the criteria to report in accordance with another Tier.

Current reporting landscape

11. 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.

Sector	Examples	Economic significance[1]
For-profit	Listed issuers, funds, large privately held companies, state-owned-enterprises, cooperatives	Generally medium to high. Includes entities with over \$33m revenue or \$66m assets and overseas entities with over \$22m assets or \$11m revenue (as well as smaller entities if they issue shares/bonds/units to the public, etc.).
PBE sector (Public sector PBE)	Government departments, Crown entities, local authorities, schools	Generally high, but with a large volume of smaller entities such as schools.
PBE sector (Not-for-profit PBE)	Registered charities, incorporated societies, other community organisations	Generally lower relative to the other sectors, with the vast majority of not-for-profit entities small in size. However, the sector is economically significant in aggregate due to the large number of entities (which also includes some very economically significant entities) and the resources they collectively manage

12. These groups differ in their objectives, accountability arrangements, funding models and user needs. They also vary significantly in both number and economic significance. This diversity is one of the factors that has shaped the current sector model and is relevant when considering whether alternative sector structures may be appropriate.

Rationale for the current sector model

13. The current sector model reflects New Zealand's move away from a single, sector-neutral framework following the adoption of IFRS in the mid-2000s.

14. Over time, it became evident that a single set of standards designed primarily for for-profit entities and capital market participants did not adequately reflect:

    (a) the objectives of public sector and not-for-profit entities;

    (b) the nature of transactions common in those sectors (e.g. non-exchange transactions such as taxes, grants, and donations); and

    (c) the accountability relationships between those entities and their primary users.

15. In response, New Zealand introduced a multi-sector framework in 2012, distinguishing between for-profit entities and PBEs. This enabled the use of different standards frameworks better aligned to the underlying nature of entities and their reporting needs. More information about the history of the current ASF design can be found here.

[1] Refers to the economic significance of entities within the sector, rather than the economic significance of the whole sector.

16. The current sector model is therefore underpinned by a distinction in the purpose and objectives of reporting entities. For-profit entities primarily seek to generate financial returns for owners and investors, while PBEs primarily exist to provide goods or services for community or social benefit.

17. A purpose-based approach was adopted because it was able to differentiate the core substance of an entity's objectives, accountability relationships and transactions that matter for reporting while balancing costs involved with further sector differentiation.

User needs

18. The rationale for sector differentiation is ultimately driven by differences in the information needs of users. Financial reporting is intended to provide information that is useful for decision-making and accountability purposes, and those needs may differ depending on the objectives of the entity and its relationship with stakeholders.

19. For-profit entities are generally funded through investment and lending arrangements. Their primary users are typically investors, lenders and other creditors, who are principally interested in information that supports economic decision-making (about buying/holding/selling shares or providing funding or credit to the entity), including assessments of financial performance, financial position, cash flows and future returns.

20. Public sector and not-for-profit entities are generally established to provide public or community benefit, rather than generate financial returns. Their users commonly include taxpayers, ratepayers, donors, funders, service recipients and elected representatives. These users are often interested not only in financial performance and position, but also in how resources have been obtained, managed and used to achieve intended outcomes. Some users need this information for decision-making purposes (e.g. whether to provide further funding/donations to the entity), while others need it for accountability purposes.

21. These differing user needs can influence the type of information considered most useful. As a result, sector-based reporting frameworks may enable reporting requirements to be more closely aligned with the objectives, accountability relationships and information needs of different types of entities.

Public sector and not-for-profit entities

22. The rationale for the PBE concept was that entities whose primary objective is public benefit rather than financial return shared sufficiently similar reporting objectives and transactions to justify a common standards framework. Using a single PBE sector for public sector PBEs and private sector not-for-profit PBEs reflects:

    (a) their shared focus on public or community benefit;

    (b) similar types of transactions (particularly non-exchange transactions); and

    (c) overlapping user needs centred on accountability and stewardship.

23. While a single PBE sector also supports:

    (a) consistency in reporting across entities with similar objectives; and

    (b) efficiency in standard-setting by avoiding duplication across closely related sectors.

Why are we looking at sectors?

24. 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.

25. 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.

Implications of current sector model

26. The current sector model was designed to improve the relevance of financial reporting by aligning reporting requirements with the objectives, transactions, accountability relationships and user needs of different types of entities.

27. While the model enables reporting requirements to be tailored to different types of entities, it also requires entities to be grouped into defined sectors by purpose. As a result, the current sector model has several implications:

    (a) sector boundaries can create classification challenges where entities have characteristics that span more than one sector (e.g. where an entity has multiple purposes that include generating financial returns and providing services for community benefit), resulting in judgement and complexity in applying the framework.

    (b) different reporting requirements across sectors can reduce comparability between entities that undertake similar activities but report under different frameworks.

28. Therefore, it is worth considering whether there are other approaches to determining sectors in the ASF that might reduce the challenges mentioned above, while still resulting in accounting standards that reflect the substance of entities' transactions and meet user needs.

Interaction with other elements of the ASF

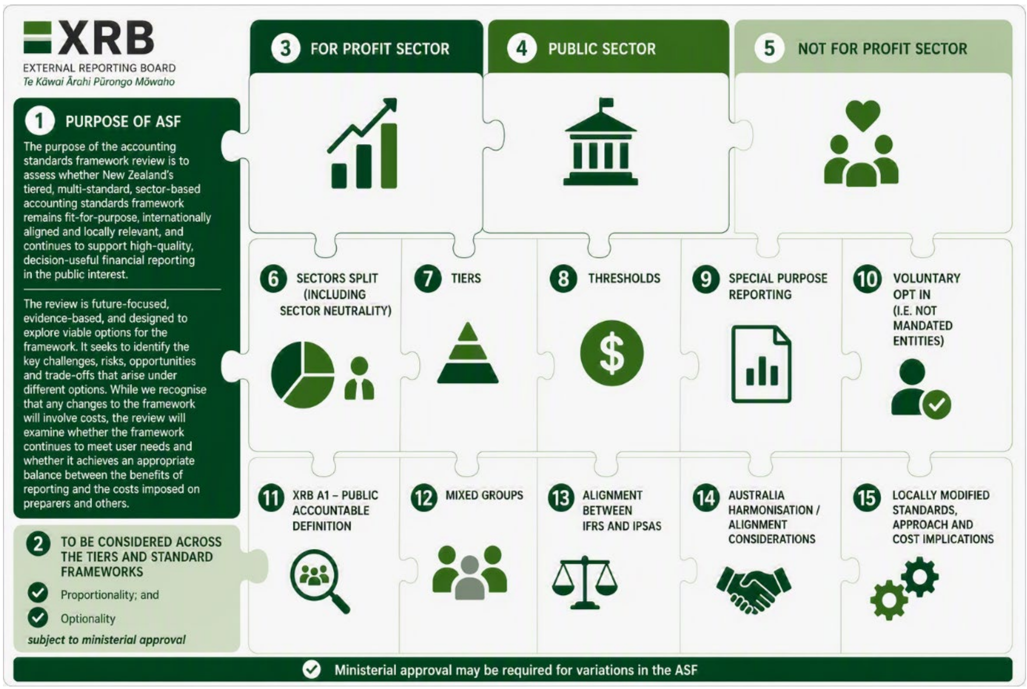
29. The significance of the sector model extends beyond determining how entities are classified. The sector model acts as the starting point for determining the reporting requirements that apply to an entity and influences the operation of other key components of the framework, including:

    (a) Tiering structures, which apply different levels of reporting requirements within each sector;

    (b) Thresholds, which determine eligibility for different tiers; and

    (c) Standards frameworks (e.g. IFRS-based vs IPSAS-based standards).

    The key elements of the ASF is depicted below, and depicts the interdependencies within:



30. As a result, changes to sector structure could have wider implications across the financial reporting system. Sector design therefore influences:

(a) the balance between relevance of reporting requirements to different entities and comparability across the reporting system;

(b) how effectively reporting requirements reflect the needs of different users and accountability environments;

(c) the complexity and understandability of the ASF for preparers, users, and other stakeholders;

(d) the consistency of reporting outcomes for similar activities and transactions; and

(e) the extent to which New Zealand's framework aligns with international approaches or reflects domestic circumstances.

31. Therefore, the concept of sectors is a key aspect of the current ASF and a key driver of the financial reporting outcomes arising from the ASF. It is important to consider whether any changes to this key aspect of the ASF might be beneficial.

Environmental factors relevant to sector design

Context and operating environment

32. The sector model operates within a wider legislative, economic, and political environment. While sector structure is a component of the ASF, it does not operate in isolation. Any changes to the sector model need to be considered alongside the broader settings in which financial reporting requirements are developed and applied.

33. Financial reporting forms part of the broader economic infrastructure that supports capital allocation, investor confidence, and fiscal credibility. As a small, open economy, New Zealand relies on access to international capital and investment to meet funding needs across the economy. New Zealand has historically been a net borrower from overseas and continues to maintain a significant net international investment liability position, reflecting an ongoing reliance on foreign capital. Government policy settings also increasingly emphasise attracting

high-quality foreign investment, primarily into the private sector, as a driver of productivity and economic growth. In this environment, confidence in New Zealand's economy and institutions may be influenced by factors such fiscal discipline, debt levels, economic resilience, transparency and quality of financial reporting. High quality financial reporting supports the transparency, comparability and credibility of New Zealand's financial reporting system, which in turn, may strengthen confidence in the wider economy, facilitate access to capital, and contribute to a lower cost of capital over time.

34. However, the relevance of these considerations varies across different reporting entities:

(a) For-profit entities, particularly larger or publicly accountable entities, are often more directly connected to capital markets and international investors, and therefore may place greater importance on international comparability and investor-focused reporting.

(b) Public sector entities are linked to international capital more indirectly, through sovereign borrowing and broader fiscal credibility.

(c) Not-for-profit entities are generally more domestically funded and tend to emphasise accountability to donors, funders, members, and beneficiaries rather than international comparability, except where cross-border funding or operations are significant.

35. These differences influence the information needs of users and the reporting outcomes expected from financial reporting.

36. Sector design also exists within a wider legislative and policy framework. While the ASF distinguishes between for-profit entities and PBEs, legislation, regulation and public policy distinguish between more precise groups of entities (such as commercial, public sector, charitable or community-based entities). This is evidenced by the different accountability, governance and reporting expectations set within legislation.

37. Public sector entities are accountable for the stewardship of public resources, while not-for-profit entities are increasingly subject to governance and accountability requirements reflecting their public or community role. For-profit entities are more commonly accountable to investors, creditors and other market participants.

38. In addition to reflecting current circumstances, the ASF should remain sufficiently adaptable to accommodate future changes in the reporting environment. Reporting entities are operating within an environment characterised by ongoing economic, regulatory and technological change, evolving stakeholder expectations, increasing demands for transparency and accountability, and changing patterns of funding and service delivery. While it is not possible to anticipate all future developments, the sector model should be sufficiently robust and flexible to remain relevant as the operating environment evolves.

39. As a result, the design of the ASF, including its sector structure, needs to take account of relevant policy settings while considering the differing objectives, accountability relationships and operating environments of reporting entities. It should also support a framework that remains appropriate and resilient as those settings, environments and reporting populations continue to evolve.

International approaches to sector classification

40. Internationally, jurisdictions adopt a range of approaches to structuring financial reporting frameworks across different types of entities. In Appendix 2 we include an outline of the jurisdictions we have looked at to inform our considerations.

41. While there is no single dominant model, most jurisdictions differentiate, in some form, between commercial reporting environments and public sector and not-for-profit reporting environments.

42. Broadly, the approaches observed internationally can be described as:

    (a) multi-sector approaches, where different standards frameworks apply to different types of entities;

    (b) sector-neutral approaches, where a common standard framework is applied across sectors but is modified or supplemented for certain contexts; and

    (c) segmented approaches, where entity type, legal form, or factors aside from broader sectors leads to more specific differentiation.

43. Several themes emerge from the international comparison:

    (a) IFRS remains the dominant framework for for-profit entities, especially those with public accountability;

    (b) many jurisdictions use IPSAS or IPSAS-informed approaches for public sector reporting;

    (c) not-for-profit entities are treated differently across jurisdictions, sometimes within public sector frameworks, sometimes under IFRS-based frameworks, and sometimes under dedicated adaptations; and

    (d) jurisdictions that use a sector-neutral model generally include some form of sector-specific modification.

44. New Zealand's current model is not out of step with international practice in using IFRS for for-profit entities and IPSAS-based standards for PBEs, but it is distinctive in explicitly combining public sector and not-for-profit entities into a single PBE sector based on purpose.

45. The international evidence does not provide a single preferred approach. Instead, it indicates that different jurisdictions have adopted a range of different solutions that provide an acceptable balance in their respective environments.

46. Australia provides an example of this. Australian Accounting Standards are based on IFRS Accounting Standards and apply across for-profit, public sector and not-for-profit entities. However, those standards contain additional public sector and not-for-profit requirements and guidance in areas where sector-specific transactions or reporting considerations arise.

47. As a result, while the Australian framework uses a common standards base, it continues to distinguish between sectors through modifications and additional requirements within the standards themselves.

Challenges with the current sector model

48. Based on stakeholder feedback, we have observed a number of practical challenges associated with the current sector structure.

49. These challenges include:

    (a) Structural complexity of the sector classification and wider accounting standards framework;

    (b) Sector classification difficulty arising from mixed objective, or mixed funding, or mixed structures;

(c) Misalignment of reporting requirements and resulting consequences, including mixed groups; and

(d) Pace of change in operating, reporting and regulatory environments., and the impact on sector classification.

50. These challenges do not necessarily suggest that the current sector model should be replaced. However, they may identify areas where the existing model may not operate as effectively as intended and help inform whether changes to the sector structure or its implementation should be considered.

Structural complexity

51. Structural complexity arises in the current ASF as it requires entities to move through a series of classification steps to determine the applicable reporting framework.

52. This complexity arises not only from the existence of multiple sectors, but also from the way sector classification is determined. In particular:

(a) A two-sector classification model that leads to three outcomes – The current ASF is described as a two-sector model comprising for-profit entities and PBEs. However, in practice the classification process results in three groups of entities: for-profit entities, public sector PBEs and not-for-profit PBEs. This can create a perception that the framework operates as a three-sector model.

(b) A two-stage classification mechanism – Classification is determined through a two-stage process. Entities are first assessed against a purpose-based definition to determine whether they are a PBE and, if so, are then assessed against a sector-based definition to determine whether they are a public sector PBE. While this mechanism is fundamental to how the sector model operates (including allowing for for-profit public sector entities to remain within the for-profit framework), it can add complexity to the classification process.

Classification difficulty

53. The ASF relies on each reporting entity being able to assess its primary objective in order to determine its sector classification, using a substance-over-form approach (i.e. legal form is not determinative in assessing whether an entity is a for-profit entity or a PBE). While many entities can be readily classified, challenges tend to arise for entities with mixed objectives, mixed funding arrangements or complex organisational structures.

54. In these circumstances, applying a purpose-based definition of a PBE requires a significant level of judgement, and identifying a single dominant purpose may be difficult, particularly where commercial and public benefit objectives coexist. XRB A1 outlines indicators that can assist in making these assessments, but in these types of circumstances indicators can often compete.

55. This challenge has practical consequences for preparers, auditors, regulators and users. Uncertainty regarding the appropriate sector classification can create uncertainty about the reporting requirements that apply, increase the demand for detailed guidance and interpretation, and result in similar entities reaching different classification conclusions.

56. However, classification difficulties may be significant for affected entities but may not be widespread across the reporting population.

Consequences of misalignment

57. Misalignment occurs where the reporting requirements resulting from sector classification do not appropriately reflect an entity's objectives, users, transactions, or accountability relationships. This may arise because the application of sector boundaries results in similar entities being treated differently because of judgement being applied. Where misalignment occurs, costs of reporting may increase, and similar entities or similar transactions may be reported differently, reducing comparability.

58. Misalignment may also arise at a group reporting level where entities within the same reporting group apply different reporting frameworks and must subsequently be consolidated into a single set of financial statements (commonly referred to as a mixed group).

59. Mixed groups can create additional practical challenges for preparers, auditors and users. Consolidation may require adjustments and reconciliations across different recognition, measurement and disclosure requirements of the two sectors, increasing compliance effort and complexity. In some circumstances, the resulting consolidated financial statements may be less useful than if a common reporting framework had been applied throughout the group.

60. Please see the Mixed Groups memo agenda item 6.1c for further analysis and detail on these issues.

Pace of change

61. The operating, regulatory and reporting environment in which the ASF operates continues to evolve. This is seen through the extension of XRB accounting requirements to new entity types (due to changes in primary legislation, e.g. the Incorporated Societies Act 2022 recently resulted in some incorporated societies having to adopt XRB standards), more diverse organisational structures, changing funding and service delivery models, and differing accountability expectations.

62. The pace and cumulative effect of these changes can place increasing pressure on the current sector model by creating circumstances that may not have been envisaged when the ASF was originally developed. As the ASF requires entities to continually assess their sector classification, changes in objectives, organisational structure, funding arrangements, service delivery models or accountability relationships may increase the complexity of applying the sector model and, in some cases, result in transitions between reporting frameworks.

63. Over time, this can increase costs across the reporting ecosystem and heighten the risk of misalignment between reporting requirements and the circumstances of the entity.

64. This suggests that sector design should be considered not only against current reporting challenges, but also in light of how New Zealand’s reporting landscape may continue to evolve over time.

Sector options

65. In response to user needs and the practical challenges and wider contextual factors identified throughout this paper, we have identified four sector structure options for further consideration:

    (a) two-sector model;

    (b) a sector-neutral (common framework) model;

    (c) a three-sector model;

    (d) a segmentation approach.

66. These options are not intended to represent an exhaustive list of all possible sector configurations. Rather, they represent different approaches to organising the ASF and addressing the challenges identified.

67. The options differ primarily in the degree to which reporting requirements are differentiated between entities. At a high level:

(a) the sector-neutral model represents the least differentiated approach;

(b) the segmentation approach represents the most differentiated approach; and

(c) the two-sector and three-sector models sit between these two ends of the spectrum.

68. In assessing the relative strengths and weaknesses of the different sector design options, we have considered:

(a) User needs, decision useful information, and accountability – the extent to which a sector option supports the provision of understandable and decision-useful information that meets the needs of users and reflects differing accountability relationships.

(b) Proportionality – the extent to which a sector option enables reporting requirements to be proportionate to the needs of users across entities with different objectives, transactions, and accountability relationships.

(c) Simplicity – the extent to which a sector option is understandable and capable of being applied consistently in practice.

(d) Comparability – the extent to which a sector option supports comparability between entities where appropriate.

(e) Specific costs - including transition costs associated with moving to a new sector model, ongoing application costs of a sector model, and the complexity and cost of maintaining reporting frameworks.

69. The relative significance of these factors may differ depending on the size, tier, public accountability and circumstances of the entities affected. Accordingly, the costs and benefits of each option are considered at a system-wide level rather than from the perspective of any single stakeholder group.

Option 1 – Two sector model

70. Under this option entities are classified as either for-profit entities or PBEs.

Sector	Classification basis
For-profit	Entity is not a PBE
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE

71. Each sector would apply a framework specific for their sector.

72. This option preserves the existing conceptual distinction between entities whose primary objective is to generate financial returns and entities whose primary objective is to provide goods or services for community or social benefit. It therefore retains sector differentiation based on the purpose of an entity and reflects the view that differences in objectives, accountability relationships and user needs continue to justify different reporting frameworks for for-profit entities and PBEs.

73. For detail on the analysis of Option 1, please see Appendix 2.

74. Overall, Option 1 performs strongly against user needs, accountability and transition cost considerations, while providing stability and continuity for the reporting system. However, it does not fundamentally address concerns relating to comparability, classification complexity, mixed-group reporting, or the continued appropriateness of a combined PBE sector. Instead, it assumes that these issues can be managed through targeted refinement of the existing model rather than sector redesign.

75. We consider that Option 1 is a viable option for consultation.

Option 2 – Sector neutral (common framework) model

76. Under this option, the ASF would move away from formal sector distinctions and instead apply a single, unified financial reporting framework. This could be anchored in IFRS Accounting Standards, or in a locally modified framework, but in either case the distinction between for-profit entities and PBEs would cease to be the primary organising principle of the ASF.

Sector	Classification basis	Standards framework
All entities	N/A (However, if the single suite of standards contains some modified requirements or exemptions that apply only to specific entities, e.g. PBEs, then entities may still need to consider their classification for the purpose of determining whether these modified requirements/exemptions apply.)	A common reporting framework, such as NZ IFRS or locally modified framework. May still require sector-specific modifications, adaptations or guidance where PBE reporting issues or transactions arise, for example: • Tax collections; • Non-exchange transactions; • grants; • donations; • appropriations; • concessionary transactions; • impairment of non-cash-generating assets • service performance reporting.

77. As part of considering a sector-neutral model, staff have prepared a high-level comparison of new and upcoming IPSAS Standards with equivalent IFRS Accounting Standards where such IFRS requirements exist. This comparison is relevant to the sector-neutral consideration as it is intended to help assess the implications of using an IFRS-based standards framework for PBEs, rather than continuing to use IPSAS-based PBE Standards.

78. The comparison indicates that many IPSAS requirements are aligned with IFRS Accounting Standards where appropriate. However, it also identified areas where IFRS Accounting Standards do not comprehensively address PBE-specific transactions or reporting matters, including revenue from transactions without binding arrangements, transfer expenses, tangible natural resources held for conservation, and measurement of assets held for operational capacity. Accordingly, an IFRS-based sector-neutral model would still require the NZASB to consider whether PBE-specific modifications, guidance or supplementary requirements would be needed.

79. This paper does not include the IFRS/IPSAS comparison in detail. However, the findings are relevant to the assessment of sector-neutrality because they demonstrate that a common framework may reduce sector classification complexity, but would not necessarily remove the need to address PBE-specific reporting considerations. The implications of those findings will be considered in more detail when the Board considers PBE standards framework options at a future meeting.

80. Additionally, it should be noted that our considerations of standard framework options for the different sectors and tiers, include IFRS and locally modified standards as viable options. This serves as a reference point for the sector-neutral model in our framework standards considerations where we analyse these options against key criteria and compare it to other viable options. This will be considered further as part of the standards framework analysis which is commenced in agenda items 8.1b and 8.1c.

81. The rationale for the sector-neutral option is that many of the challenges identified in the current model are associated with the differentiation of reporting requirements between sectors. By reducing or eliminating sector distinctions, this option seeks to improve comparability, reduce classification and boundary issues, and create a more coherent reporting system.

82. This option reflects the principle that similar transactions should generally be reported in a similar manner regardless of the type of entity undertaking them, unless there is a compelling reason for different reporting requirements.

83. For detail on the analysis of Option 2, please see Appendix 2.

84. Overall, Option 2 simplifies the sector structure and performs strongly against comparability, and simplicity considerations, while directly addressing many of the classification and boundary issues associated with the current model. However, it raises important questions about how differing user needs, accountability requirements and public-benefit reporting considerations would continue to be accommodated within a common framework.

85. In practice, achieving a common framework will likely require additional sector-specific modifications, guidance or adaptations within the standards themselves. This raises the question, how extensive are the modifications needed, and at what point does the framework effectively becomes a multi-sector framework again.

86. We consider that Option 2 is a viable option for consultation. It provides a clear alternative to the current model and enables stakeholders to consider whether the benefits of greater comparability, consistency and simplification outweigh the benefits of maintaining sector differentiation.

Option 3 – Three sector model

87. Under this option, the current PBE sector would be disaggregated into two distinct sectors, producing a three-sector ASF comprising:

(a) for-profit entities;

(b) public sector entities; and

(c) not-for-profit (or broader for-purpose) entities.

Sector	Classification basis
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
Public sector	Meets a public sector definition (refer to paragraph 93 below) For illustrative purposes this could be based on: • Subject to Public Audit Act 2001 • Other public sector factors • Excluding publicly listed entities or publicly accountable entities as per XRB A1
Not-for-profit or for-purpose sector	Meets a not-for-profit or for-purpose definition (refer to paragraph 93 below) 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

88. A key consequence of this option is that each of the three distinct sectors above would likely be subject to a distinct suite of accounting standards and therefore distinct accounting requirements. This is different to Option 1 (and the current ASF approach), where public sector and not-for-profit PBEs are largely subject to similar accounting requirements with limited differences. Also, under Option 3, entities classified as 'public sector' would apply the same suite of standards regardless of whether their primary objective relates to public benefit or generating financial returns (other than publicly listed or publicly accountable public sector entities). This is also different to Option 1 (and the current approach), where the accountings standards that apply to a public sector entity depends on its primary objective.

89. The rationale for this option is that, while public sector and not-for-profit entities share a public benefit orientation, they may have sufficiently different objectives, accountability relationships, funding models and user needs to justify separate treatment within the ASF.

90. In this context, the option also raises the question of whether the not-for-profit sector should be viewed more broadly as a "for-purpose" sector, recognising the diversity of entities that operate primarily to achieve social, community or public benefit outcomes rather than generate financial returns or that make up part of the public sector.

91. The three-sector option is broadly consistent with aspects of New Zealand's broader legislative, regulatory and policy framework, which often considers public sector entities, not-for-profit entities and for-profit entities as distinct groups with different governance, accountability and reporting expectations.

92. This option would make sector differentiation a key organising principle of the ASF, and replace the existing purpose-based distinction between for-profit entities and PBEs with a set of sector boundaries that separately identify for-profit entities, public sector entities and not-for-profit (or for purpose) entities.

93. The effectiveness of this option would depend significantly on how sector boundaries are defined and applied in practice. A key design consideration would therefore be whether workable definitions can be developed that appropriately distinguish the three sectors and minimise overlap. Potential approaches could include:

    (a) A public sector entity boundary based on those entities subject to the Public Audit Act 2001 or based on factors such as public ownership or control, statutory establishment, accountability to Parliament, Ministers, local authorities, ratepayers or taxpayers, or responsibility for delivering public services. Excluding publicly listed or publicly accountable entities as per XRB A1.

(b) A broader for-purpose boundary based on factors such as the pursuit of social, community, cultural or public benefit objectives, and accountability to donors, funders, members or beneficiaries, and operation outside government control. Excluding publicly listed or publicly accountable entities as per XRB A1.

(c) A for-profit boundary based on generating financial returns for equity holders or being a publicly listed entity or a publicly accountable entity per XRB A1.

94. The impact on mixed groups would depend significantly on how sector boundaries were defined and the distribution of entities across those boundaries. For instance, for-profit public sector entities that are currently classified as for-profit entities and apply NZ IFRS, may under a pure sector definition (rather than a two-stage purpose-based definition) be classified as public sector entities and be required to change frameworks. While at face value, this may ease mixed group issues at the whole-of-government level, the for-profit framework may be better suited to the reporting and user needs of these individual entities, especially where they may be publicly listed or have public accountability as defined in XRB A1. Indicatively, of the approximate 200 entities considered as for-profit public sector entities, approximately 50 may be publicly accountable. This would also need to be a consideration for other entities, as there may be other unintended consequences, that could arise from changing frameworks such as tax treatments that refer to IFRS, balanced budget requirements, other commercial legislation that may tie obligations to certain elements of the financial statements.

95. Accordingly, balancing sector design of this model will be critical to minimise potentially high transitional costs.

96. For detail on the analysis of Option 3, please see Appendix 2.

97. Overall, Option 3 recognises that the current PBE sector may be too broad to adequately reflect the diversity of public sector and not-for-profit reporting environments.

98. The option performs strongly against user needs, accountability and proportionality considerations by allowing reporting requirements to be more closely aligned to distinct sectors and stakeholder groups. However, these benefits must be balanced against the potential for increased complexity, additional sector boundaries, reduced comparability and higher transition and maintenance costs.

99. We consider that Option 3 is a viable option for consultation. It tests whether the benefits of greater sector-specific proportionality outweigh the costs associated with introducing an additional sector boundary and potentially additional reporting frameworks.

Option 4 – Segmentation approach

100. Under this option, the ASF would adopt a segmentation model that organises reporting requirements around specific groupings of entities based on factors such as mandate, operating environment, funding sources, accountability arrangements, or user characteristics.

101. Examples of potential segments could include central government entities, local government entities, Māori entities, education entities, health entities, charities, member-based organisations. Each segment would be subject to a distinct set of accounting requirements.

102. The rationale for this option is that broad sector categories may not adequately reflect the diversity of objectives, operating environments, transactions, accountability relationships and user needs that exist across the New Zealand reporting landscape.

103. The central proposition of this option is that improvements in proportionality, accountability and user needs are best achieved through greater differentiation of reporting requirements, even if this results in a more complex overall framework.

104. For detail on the analysis of Option 4, please see Appendix 2.

105. Overall, Option 4 illustrates what increased differentiation could look like if the ASF were designed around increasingly specific user and accountability groups.

106. We do not consider that Option 4 is suitable for further development or detailed consultation. While it is theoretically appealing in terms of tailoring reporting requirements, the practical challenges relating to boundary-setting, implementation, maintenance and overall system coherence are likely to outweigh the potential benefits.

107. Accordingly, staff do not intend to develop this option further or include it as a viable option in the Discussion Paper. However, the Discussion Paper will note that the option was considered during the review and explain why staff concluded that its disadvantages outweigh its potential benefits. This will help stakeholders understand the options considered and the rationale for focusing consultation on the remaining viable alternatives.

Implementation considerations

108. Any changes to the sector model would have implications for entity classification and may affect the financial reporting requirements that apply to some entities. The feasibility, timing and implementation pathway for any preferred option would require further consideration.

109. This would include consideration of:

(a) the extent to which changes fall within the XRB's mandate;

(b) interactions with existing legislative and regulatory settings;

(c) whether consequential amendments to legislation, regulations or other instruments would be required;

(d) whether Ministerial approval would be required for particular changes; and

(e) appropriate transition arrangements for affected entities.

110. These implementation considerations have not been assessed in detail as part of the preliminary option analysis but would form an important part of any future development work.

Overall insight into sector analysis

111. The analysis suggests that there is not one clearly superior model. Rather, each option reflects a different balance of strengths and weaknesses and responds differently to the challenges observed under the current framework.

(a) Option 1 (two sector model) preserves stability and current benefits but leaves current issues largely intact.

(b) Option 2 (sector-neutral model) simplifies the framework but raises questions about how PBE reporting needs would be accommodated.

(c) Option 3 (three sector model) provides greater differentiation between public sector and not-for-profit reporting environments, potentially improving the relevance of financial statements in these sectors, but introduces additional boundaries which could be a source of complexity.

(d) Option 4 (segmentation model) maximises the tailoring of reporting requirements to more granular groups of entities, potentially enhancing relevance of financial statements, but at the cost of coherence and comparability – *Not considered a viable option as the benefits are likely to not outweigh the costs*.

(e) The table below reflects the result of our analysis

112. The options sit on a spectrum between greater integration and comparability on one hand, and greater differentiation and proportionality on the other.

113. The analysis indicates that the choice of sector structure is ultimately a question of where complexity is best located within the financial reporting system, and what trade-offs are considered acceptable in New Zealand's environment.

114. The table below summarises staff's assessment of each option and the key factors informing that assessment.

Sector Options	**Recommendation**	**Key drivers of the assessment**		
1. Two-sector – For-profit and PBEs	**Option in DP**	Maintains stability and sector relevance with low disruption	Entrenches existing complexity on boundary clarity	Limits system-wide efficiencies
2. Sector-neutral model	**Option in DP**	Strengthens comparability, framework simplicity and system-wide capability	Risks reduced relevance for public benefit entity reporting	Will introduce transition complexity
3. Three sectors – For-profit, public sector and for-purpose (NFP)	**Option in DP**	Improves conceptual alignment to policy design and relevance by distinguishing between public sector and for-purpose entities	Increases structural and classification complexity through additional sector boundaries	Introduces system fragmentation and duplication in standard-setting and capability
4. Segmentation approach	**Not recommended**	Maximises relevance through highly tailored,	Introduces significant structural complexity through multiple segments	Reduces overall system coherence and efficiency due to

		segment-specific reporting	and boundary definitions	fragmentation, duplication, and user navigation challenges

115. We must also acknowledge that while sector boundaries are a source of challenge within the ASF, they support differentiation where differences in objectives, accountability relationships and user needs are important. Therefore, it may be considered an acceptable cost for the benefits obtained.

116. Complexity is not eliminated under any option; rather, it is redistributed within the financial reporting system. Under the two-sector model, complexity arises through classification and mixed groups. Under a sector-neutral model, complexity may shift into the need to apply or adapt a unified framework across diverse entities, or the inclusion of sector-specific requirements within a common framework. Under more differentiated models, complexity arises through additional boundaries, segment definitions, multiple reporting frameworks, and maintenance burdens.

117. The international review (per Appendix 2) also suggests that differences between for-profit and public benefit reporting environments are recognised in most jurisdictions, although those distinctions are reflected in different ways. This reinforces the broader insight that sector-specific reporting considerations do not disappear under alternative models; rather, different frameworks locate complexity and judgement in different places. The issue is therefore not whether the system can be made simple in an absolute sense, but what type of complexity is most acceptable and manageable in New Zealand's environment.

Implications for the discussion paper

118. The analysis suggests that the sector review should not be presented as simply a question of how entities should be classified. Rather, sector structure is a foundational element of the ASF and influences how other parts of the financial reporting system operate.

119. Accordingly, the Discussion Paper should frame the review as a broader system design question that considers:

(a) why sector distinctions exist;

(b) the challenges observed under the current model;

(c) the alternative approaches available;

(d) the implications of those approaches for the wider ASF; and

(e) the trade-offs associated with each option.

120. The analysis also suggests that no sector model is clearly superior in all circumstances. Instead, the options reflect different balances between user needs, accountability, proportionality, comparability, simplicity and cost.

121. Consultation should therefore seek views not only on individual sector options, but also on the priorities and outcomes stakeholders consider most important for the future development of the ASF.

122. In particular, consultation may help inform:

(a) the extent to which sector differentiation remains desirable within the ASF;

(b) how PBE reporting should be reflected in the framework;

(c) the relative importance of comparability, accountability, simplicity and proportionality;

(d) whether additional differentiation between public sector and not-for-profit entities is warranted; and

(e) the implications of alternative sector models for standards frameworks, tiering arrangements and future ASF development.

123. The Board may also wish to consider whether consultation should be staged. For example, an initial consultation could focus on sector architecture and higher-level system design questions, with more detailed considerations addressed in a later phase, refer to agenda item 5.1a where this is covered in more detail.

124. See Appendix 1 for an example of how this framing might be reflected in the Discussion Paper.

Suggested discussion paper questions

125. The following questions are illustrative of matters that could be explored through consultation in the Discussion Paper.

Sector differentiation

(a) How important is it that reporting requirements differ between sectors to reflect differences in user needs, accountability relationships and operating environments?

(b) Should public sector and not-for-profit entities continue to be grouped within a single PBE sector (and be subject to broadly similar accounting requirements), or do their differing objectives, accountability relationships and user needs justify separate sectors? Why or why not?

Alternative sector models

(c) Having regard to the advantages and disadvantages outlined in the Discussion Paper, which sector model do you consider most appropriate for New Zealand's future financial reporting framework? What are the primary reasons for your preferred approach?

(d) Are there trade-offs associated with your preferred model that you consider acceptable? If so, what are they?

Other approaches

(e) Are there alternative approaches to sector design that should be considered?

Questions for the Board

(1) Does the Board have any FEEDBACK on the supporting analysis of the sector structure and options?

(2) Does the Board AGREE with the assessment of viable sector options (Options 1, 2 and 3) for inclusion in the ASF Discussion Paper?

(3) Does the Board have any FEEDBACK on the direction of the proposed framing of the analysis of sector options for consultation in the ASF Discussion Paper?

(4) Does the Board have any FEEDBACK on the direction of the proposed sector consultation questions for inclusion in the ASF Discussion Paper?

Appendix 1

Excerpt of possible Discussion Paper

Multi-sector structure

Why does sector structure matter?

The Accounting Standards Framework (ASF) currently uses a sector model to distinguish between for-profit entities and Public Benefit Entities (PBEs). Sector classification is the starting point for determining the financial reporting requirements that apply to an entity.

Sector distinctions exist because different entities may have different users, objectives and accountability relationships. These differences can influence the type of financial and non-financial information that is considered useful for accountability and decision-making purposes.

The current ASF therefore uses different reporting frameworks for for-profit entities and PBEs.

Why are we reviewing the sector structure of the ASF?

The current sector model has operated since 2012 and has generally provided a basis for aligning reporting requirements with the overall purpose of an entity.

However, a number of challenges have been identified, including:

- complexity in determining reporting requirements arising from the multiple layers of the ASF (e.g. sector, tier and resulting standards);
- difficulties applying sector boundaries where entities have characteristics of both for-profit and PBE sectors;
- challenges for mixed groups where entities within the same reporting group are subject to different reporting frameworks.
- Reduced comparability where similar entities apply differentiated reporting requirements; and
- changes in the operating, regulatory and reporting environment since the current model was introduced.

These challenges have prompted consideration of whether the current sector structure remains the most appropriate foundation for the ASF.

How do other jurisdictions approach sector structure?

There is no single international approach to sector structure. Jurisdictions use a range of models to distinguish between commercial, public sector and not-for-profit reporting environments.

Some jurisdictions use separate reporting frameworks for different sectors, while others apply a common framework supplemented with sector-specific requirements. New Zealand's current model is distinctive because it combines public sector and not-for-profit entities within a single PBE sector based on purpose.

Australia provides an example of a more integrated approach. Australian Accounting Standards are based on a common suite of IFRS-based standards that apply across sectors. However, additional requirements and guidance are included where public sector or not-for-profit transactions and reporting issues need to be addressed.

This illustrates that sector-specific reporting needs can be accommodated either through separate sector frameworks or within a common standards framework. The international evidence does not point to a single preferred model, but rather different ways of balancing comparability, accountability, simplicity and sector-specific reporting needs.

Sector approaches

To address these challenges and to consider what is fit for purpose now and into the future, we have identified several approaches for consideration.

Option 1 – Two-sector model

This option distinguishes between for-profit entities and PBEs for financial reporting purposes.

Sector	Classification basis
For-profit	Entity is not a PBE
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE

Potential strengths

- Well understood and embedded in current practice in New Zealand, reduces disruption of changing the current sector approach
- Supports sector-specific reporting needs (considering differences in typical transactions and user needs in the respective sectors)

Potential weaknesses

- Ongoing classification challenges and mixed-group reporting issues
- Comparability concerns where similar entities apply different reporting frameworks
- Public sector and not-for profit entities grouped together in one sector, but distinct features

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option maintains the current approach, and targeted refinements would be required to address current issues rather than structural change.

Option 2 – Sector-neutral (common framework) model

Move towards a common reporting framework across entities.

Under this approach, the distinction between for-profit entities and PBEs would no longer be the primary organising principle of the ASF. Different entities would generally report under a common framework (e.g. NZ IFRS or locally modified standards), although additional requirements or modifications will be required where sector-specific circumstances arise.

Sector	Classification basis
All entities	N/A

Potential strengths

- Improves comparability across entity types.
- Simplifies sector classification.

Potential weaknesses

- May not fully reflect sector-specific reporting needs
- Risk that complexity moves into application of the standards rather than sector classifications as sector-specific modifications or guidance may be required.

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option places greater emphasis on comparability, consistency and simplicity by reducing sector differentiation.

Option 3 – Three-sector model

Separate the current PBE sector into distinct public sector and not-for-profit (or for-purpose) sectors.

Under this approach, the ASF would recognise public sector entities, not-for-profit (or for-purpose) entities and for-profit entities as separate sectors that would be subject to different accounting requirements. This reflects the view that public sector and not-for-profit entities may have sufficiently different objectives, accountability relationships and user needs to justify separate treatment.

Sector	Classification basis
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
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
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

Potential strengths

- Better reflects differences in reporting purpose and user needs between public sector and not-for-profit entities.
- Enables more targeted standard-setting

Potential challenges

- Introduces an additional sector boundary, and could increase classification complexity.

- May require development and maintenance of additional requirements.

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option places greater emphasis on tailoring reporting requirements to the differing objectives, accountability relationships and user needs of those sectors.

Other approaches considered

We also considered whether reporting requirements could be organised around more specific groups of entities, such as charities, local government entities, Māori entities, education entities or health entities.

While this could allow reporting requirements to be more closely tailored, it would introduce additional classification boundaries, increase complexity of the ASF and accounting requirements and reduce comparability between reporting entities' financial statements. It could also create ongoing pressure to add, remove or redefine segments over time.

On balance, this approach has not been considered a viable option as part of this review.

Balancing benefits and costs

The options presented do not necessarily represent a choice between a superior model and weaker alternatives. Rather, they reflect different ways of balancing benefits and costs and the objectives of the ASF.

Questions for stakeholders

1. How important is it that reporting requirements differ between sectors to reflect differences in user needs, accountability relationships and operating environments?
2. Should public sector and not-for-profit entities continue to be grouped within a single PBE sector (and be subject to broadly similar accounting requirements), or do their differing objectives, accountability relationships and user needs justify separate sectors? Why or why not?
3. Having regard to the advantages and disadvantages outlined above, which sector model do you consider most appropriate for New Zealand's future financial reporting framework? What are the primary reasons for your preferred approach?
4. Are there trade-offs associated with your preferred model that you consider acceptable? If so, what are they?
5. Are there alternative approaches to sector design that should be considered?

Appendix 2

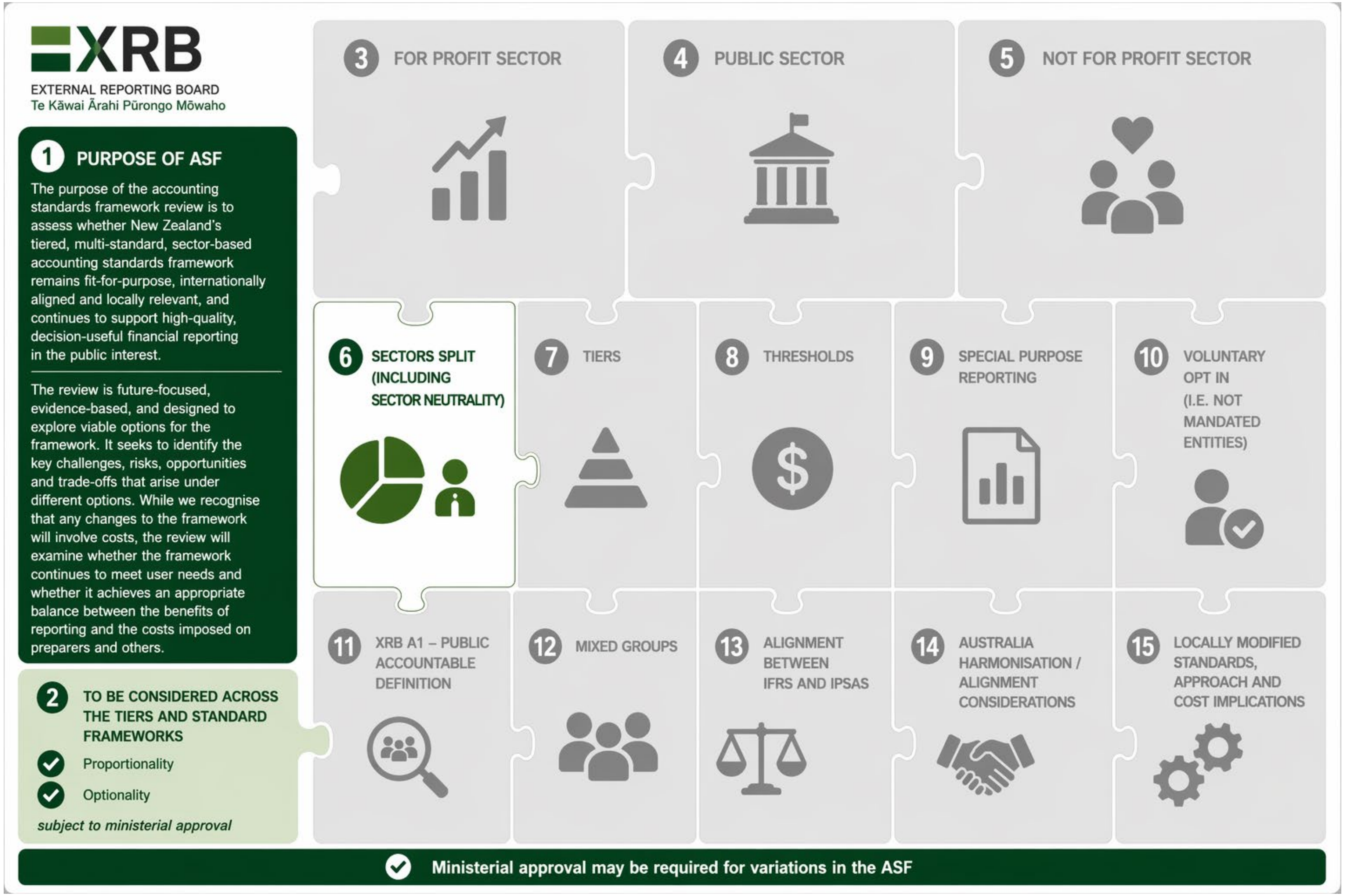
For an overview of the information within this paper, refer to the following Sector slides.

For the particular information referred to within the paper, see the following:

- the international perspective on sector classification, see Appendix 4 of the attached slides
- the detailed analysis of sector options, see Appendix 5 of the attached slides

Sectors

Sectors


XRB
EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
1 PURPOSE OF ASF
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.
2 TO BE CONSIDERED ACROSS THE TIERS AND STANDARD FRAMEWORKS
Proportionality
Optionality
subject to ministerial approval
3 FOR PROFIT SECTOR
4 PUBLIC SECTOR
5 NOT FOR PROFIT SECTOR
6 SECTORS SPLIT (INCLUDING SECTOR NEUTRALITY)
7 TIERS
8 THRESHOLDS
$
9 SPECIAL PURPOSE REPORTING
10 VOLUNTARY OPT IN (I.E. NOT MANDATED ENTITIES)
11 XRB A1 – PUBLIC ACCOUNTABLE DEFINITION
12 MIXED GROUPS
13 ALIGNMENT BETWEEN IFRS AND IPSAS
14 AUSTRALIA HARMONISATION / ALIGNMENT CONSIDERATIONS
15 LOCALLY MODIFIED STANDARDS, APPROACH AND COST IMPLICATIONS
Ministerial approval may be required for variations in the ASF

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

Current economic context – New Zealand's operating environment and international capital

Consideration may be required as to whether the current sector-based framework appropriately reflects New Zealand's need to maintain credibility, transparency, and comparability in global capital markets, in addition to domestic accountability objectives.

1. Structural reliance on international capital

- New Zealand's net international investment liability position at Dec 2025 was $197bn (Sep 2025 - $202.9 bn) (Stats NZ)
- New Zealand recorded a current account deficit of $16.3bn (3.7% of GDP) for the year ended Dec 2025 (Dec 2024: $20bn, 4.7% of GDP, reflecting ongoing reliance on foreign capital inflow (Stats NZ)
- Persistent net international investment liability position and current account deficits have resulted in New Zealand being a net borrower, with international investors playing a key role in funding domestic economic activity.

2. Investor confidence and economic credibility

- Reliance on foreign capital links New Zealand's cost and access to funding to investor confidence.
- Confidence may be influenced by fiscal discipline and debt levels, transparency and quality of financial reporting and broader economic resilience
- Rating agencies Moody's and Fitch revised New Zealand outlook to negative (2026), reflecting rising debt, delayed fiscal consolidation, and weaker growth.
- OECD similarly highlights a more uncertain global environment, increasing the importance of fiscal credibility and sustained investment (OECD Economic Survey New Zealand 2026)

3. Attracting international investment

- Government policy settings increasingly emphasise attracting high-quality foreign investment, primarily into the private sector, as a driver of productivity and economic growth, access to capital and long-term economic resilience.
- Initiatives include measures to increase investment inflows, improve access to international markets and position New Zealand as an attractive destination for global capital

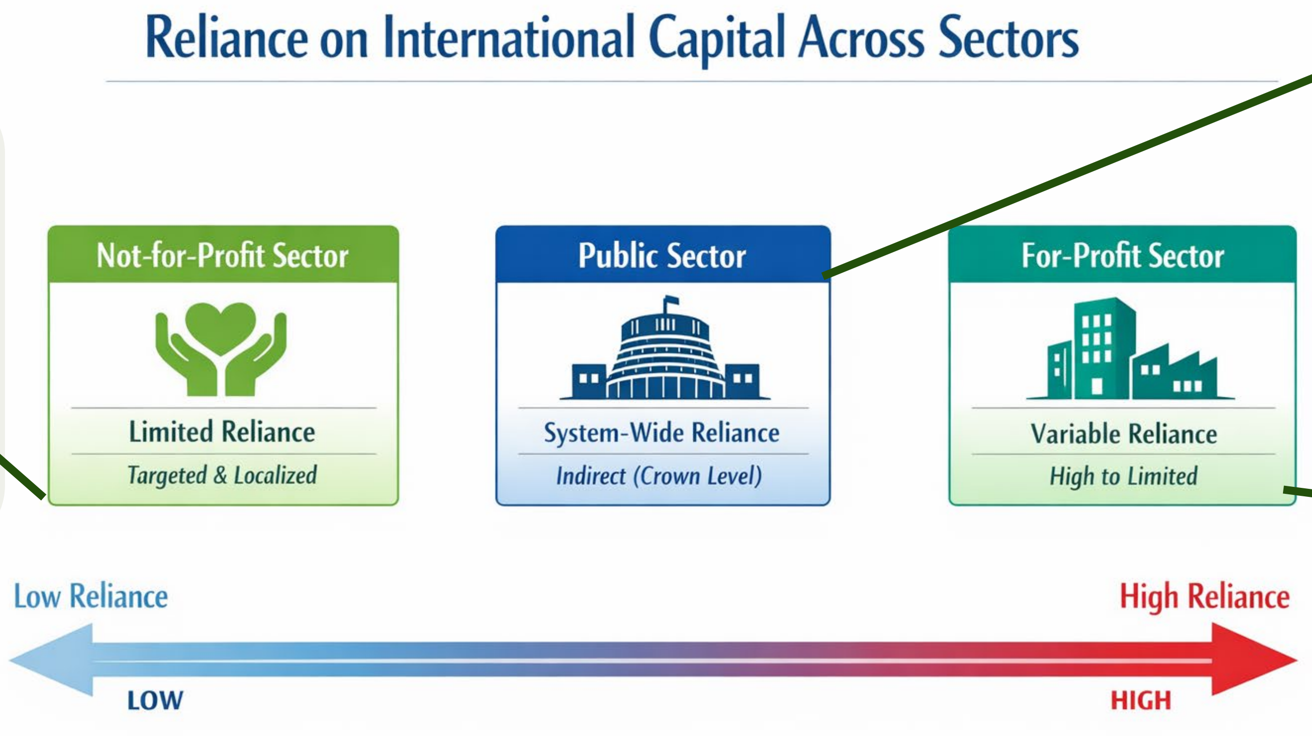
4. Ecosystem and compliance

- In this environment, financial reporting functions as part of the economic infrastructure supporting capital access
- High-quality reporting supports investor confidence and comparability, sovereign creditworthiness and efficient government borrowing
- Sector design is not only a technical choice, but it also has broader economic and strategic implications

International capital – sector comparison

While New Zealand's reliance on international capital is a system-wide feature, its significance varies across sectors, necessitating a more granular consideration of sector-specific impacts.

NFP sector
- Primarily funded through domestic sources (donations, grants, service delivery, government funding)
- International funding exists, but is:
  – targeted
  – not system-wide



Public sector
- The primary objective of the public sector is accountability to Parliament and the public, with investor confidence operating as an important system-level consideration.
- This sector relies on international capital primarily through sovereign borrowing and debt markets

For-profit sector
- Reliance on international capital varies across the sector, reflecting differences in size, ownership, and funding models
- T1 and internationally active entities are often directly reliant on global equity and debt markets.
- Many smaller and domestically focused entities may rely more on domestic funding sources

The extent of reliance on international capital varies materially by sector, but is most pronounced for publicly accountable for-profit entities (direct market engagement) and the public sector (via sovereign financing). This raises the question of whether the current sector framework appropriately reflects the differing user needs, and New Zealand's broader reliance on global capital markets.

To provide context for New Zealand's sector approach and varying reliance on international capital, staff have undertaken a comparison of international sector classification approaches - refer Appendix 4.

Sector model key challenges

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

1. Structural complexity

The framework requires multiple layers of intersecting considerations (sector, tier, and standards base) to determine reporting requirements, rather than a single, coherent decision pathway.

2. Classification difficulties

Classification difficulties arise because sector classification depends on judgemental assessments of an entity's primary objective and substance, which can be unclear or mixed in practice.

3. Mixed groups

Entities within the same group may fall into different sectors, requiring the application and reconciliation of multiple reporting frameworks within a single set of financial statements.

4. Consequences of misalignment

Inconsistencies can arise because similar entities may be classified differently, reducing comparability. This may also diminish the overall usefulness and relevance of financial reporting.

5. Pace of change

The operating, reporting and regulatory environment is evolving at an increasing pace which create pressure on preparers and the broader ecosystem to adapt and remain current.

IFRS to IPSAS: How NZ PBE Standards originate

The IFRS → IPSAS → NZ Pipeline

Many IPSAS standards begin as IFRS — IPSASB adds the public sector lens and absorbs the research cost before standards reach New Zealand; a sector-neutral approach would transfer that cost and work to NZ.

1

IFRS

International Accounting Standards Board (**IASB**)

- Issues IFRS Accounting Standards for profit-focused entities.
- Global baseline; but gaps remain for public-sector transactions.

2

IPSASB Adapts

International Public Sector Accounting Standards Board (**IPSASB**)

- Reviews & applies a public sector lens to each IFRS
- Adapts to fill gaps for public-sector transactions and context.

IPSASB bears the cost of research, adaptation & gap-filling — NZ does not need to fully reperform the research undertaken by IPSASB.

3

International Consultation

IPSASB — Global Exposure Drafts

- IPSASB issues exposure drafts and consults globally before finalising.
- NZ (XRB / NZASB) participates in this process.

4

NZ Consultation

XRB / NZASB — Domestic Review

- XRB / NZASB consults domestically on adoption
- Considers local context, modifications needed, and transitional provisions.

5

NZ PBE Standards

XRB — Issued for NZ Entities

- IPSAS-based standards issued, adapted for NZ context.
- Applied by govt, schools, councils & charities etc.

If Sector-neutral (IFRS-only)

- ⚠ NZ would no longer be able to leverage IPSASB's research and gap-filling work
- ⚠ NZ would need to consider domestic standards for public-sector topic IFRS does not cover (e.g. grants, natural resources, concessionary loans)
- ⚠ Cost and complexity of standard-setting currently borne internationally, would shift entirely to NZ

PBE Standards vs NZ IFRS — Key differences

The fundamental difference is who the standards are designed for and what transactions they cover. Some examples of differentiating factors can be seen below:

	NZ IFRS	PBE Standards
Who They Serve	**Profit-focused companies** generating returns. **Users**: investors, lenders, creditors.	**Public benefit entities** — councils, charities, government. **Users**: taxpayers, ratepayers, donors.
Built On	**IFRS** — International Financial Reporting Standards used in over 140 jurisdictions for public, profit making corporations, applied directly as NZ IFRS[1].	**IPSAS** — International Public Sector Accounting Standards, adapted for NZ.
What They Cover	Customer contracts, financial instruments, investor-focused reporting	Tax revenue, grants, donated assets, concessionary loans — plus commercial transactions.
How They Measure	Market-based concepts — what the assets can be sold for to market participants (e.g. fair value)	Additional service-potential concepts – some assets valued on their replacement cost (e.g. heritage buildings, schools, health buildings etc.).

[1] The NZ IFRS includes the same recognition, measurement, presentation and disclosure requirements as the international standard (with some additional disclosure concessions available).

Analysis between IPSAS upcoming changes vs IFRS

Several upcoming IPSAS standards address public-sector matters not covered by IFRS. A sector-neutral approach would leave NZ to determine how these matters should be addressed.

🟩 Aligned – minimal change needed 🟨 Partial – IFRS covers some but not all PBE activities/context 🟥 Gap – no IFRS equivalent; NZ to consider own PBE sector solutions

IPSAS Standard	IFRS Counterpart	Alignment	Implications of using IFRS as the sector-neutral foundation
Leases (IPSAS 43)	IFRS 16	🟩	Preparers would be subject to similar requirements under IFRS and IPSAS[1].
Revenue (IPSAS 47)	IFRS 15	🟨	IFRS addresses contractual revenue, but not many PBE revenue sources such as taxes, rates, donations and grants. Additional NZ considerations would likely be needed.
Measurement (IPSAS 46)	IFRS 13	🟨	IFRS fair value focuses on price for which the asset would be sold to market participants – irrelevant/challenging to apply for roads, schools, hospitals, heritage assets. Additional NZ considerations would likely need be needed for specialised PBE assets held to provide services, rather than financial return.
Transfer Expenses (IPSAS 48)	None	🟥	IFRS contains no equivalent requirements for grants and transfers made by public sector entities. New Zealand would need to develop its own reporting requirements.
Natural Resources (IPSAS 51)	None	🟥	IFRS contains no specific requirements for natural resources held for conservation (e.g. conservation land). We would need to consider in NZ whether additional guidance for such assets may be needed (in addition to existing requirements for property, plant and equipment).

NZ IFRS 18 *Presentation and Disclosure in Financial Statements* effective 1 January 2027 is currently being deliberated at IPSASB and is likely to come into IPSAS literature in the coming years.

[1] Considering NZASB past decision not to include IPSASB's requirements on concessionary leases in PBE Standards.

Summary of the IPSAS to IFRS transition and what it may mean for NZ PBEs

So far, staff compared the content of upcoming IPSAS standards with their IFRS counterparts when it comes to sector-neutrality, but the decision is also equally weighted by who carries the cost of developing and maintaining public-sector adaptations.

What the analysis shows

- Strong alignment in the core areas – many upcoming IPSAS standards already mirror IFRS, fully or partially.
- Differences are deliberate and sector-specific – IPSAS addresses public sector transactions IFRS does not (e.g. tax revenue, grants, concessionary arrangements).

Implication for sector neutrality

- Moving to IFRS does not avoid change or reduce complexity in the standards – PBEs face similar pressures under either model.
- IFRS alone would leave gaps – XRB would need to develop and maintain domestic adaptations for PBE transactions and context.
- IPSAS already builds in those adaptations through international due process.

Key insights for the Board

- Disruption is unavoidable under either approach – the real question is where the public-sector adaptation effort sits.
- Retaining IPSAS keeps adaptations within an internationally tested framework rather than building them domestically.
- Whilst the decision may be focused on IFRS vs IPSAS content, it's equally important to consider who carries the cost and effort of maintaining public-sector adaptations under sector neutrality.

Exploring alternative sector models for NZ

Approach to sector alternative options analysis explored

- Staff have identified a set of feasible sector model alternative options informed by the current framework and considering user needs, international approaches and observed challenges.
- Each option is assessed against the key design tensions to support a structured evaluation of its relative strengths, limitations, and implications for the New Zealand reporting environment – refer to Appendix 5 for the detailed options analysis.

Identified sector options

1. Two sectors - For-profit and PBE	2. Sector-neutral	3. Three sectors – For-profit, public sector and for-purpose (NFP)	4. Segmentation approach
Retains the existing distinction between for-profit entities and PBEs.	Alignment of principles and requirements across all sectors via a common framework.	Disaggregates PBEs to recognize for-purpose entities (currently referred to as NFP) as a distinct sector from the Public Sector.	Segmentation based on nature, function, or mandate, e.g. central and local government, Māori entities, schools/education, health, construction, etc.

Options analysis summary and feedback

Drawing on the detailed options analysis in Appendix 5, the table below outlines the key drivers for each option.

Sector Options	Recommendation	RAG rating	Key drivers of the assessment		
1. Two-sector – For-profit and PBEs	Option in DP	●	Maintains stability and sector relevance with low disruption	Entrenches existing complexity on boundary clarity	Limits system-wide efficiencies
2. Sector-neutral model	Option in DP	●	Strengthens comparability, framework simplicity and system-wide capability	Risks reduced relevance for public benefit reporting	Will introduce transition complexity
3. Three sectors – For-profit, public sector and for-purpose (NFP)	Option in DP	●	Improves conceptual alignment to policy design and relevance by distinguishing between public sector and for-purpose entities	Increases structural and classification complexity through additional sector boundaries	Introduces system fragmentation and duplication in standard-setting and capability
4. Segmentation approach	Not recommended	●	Maximises relevance through highly tailored, segment-specific reporting	Introduces significant structural complexity through multiple segments and boundary definitions	Reduces overall system coherence and efficiency due to fragmentation, duplication, and user navigation challenges

RAG rating:

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

Appendices

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).

Appendix 2 – Ministerial approval legislative requirements

Tiers of financial reporting

29 Tiers of financial reporting for different classes of reporting entities

(1) The purpose of sections 30 to 33 is to provide for a system of tiers of financial reporting that impose different financial reporting requirements in respect of different classes of reporting entities in order to ensure that the requirements that apply in respect of those entities are appropriate.

(2) In sections 30 to 33, **strategy** means—

(a) the strategy for establishing different tiers of financial reporting approved under section 34C of the Financial Reporting Act 1993 as in force immediately before the commencement of this section (with any variations approved under section 31); or

(b) a replacement of that strategy as approved under section 31.

30 Board must implement strategy for tiers of financial reporting

The Board must take reasonable steps to implement the strategy.

Compare: 1993 No 106 s 34A(2)

31Minister 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.

Appendix 2 (continued) – Ministerial approval legislative requirements

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).

33 Consultation on proposals

(1) The Board must, in preparing a proposal for the variation or replacement of the strategy, take reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the variation or replacement.

(2) However, the Board is not required to comply with subsection (1) in respect of a variation to the strategy if, in its opinion, the variation corrects a minor error or is otherwise of a minor nature.

(3) Any failure to comply with subsection (1) does not affect the validity of the variation or replacement.

Appendix 3 - Defining ASF sectors – current model

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.

Classification guidance – XRB A1 Appendix A paragraphs 1-38

Classification based on primary objective (substance over form)

- Legal form is not determinative
- Consideration is at the reporting entity level which may differ from group classification

Indicators used to assess 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
- Nature of funding

Classification may require judgement

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 4 - International perspective on sector classification

This slide presents a comparison of selected jurisdictions' approaches to sector classification and standards frameworks. It highlights the degree of sector differentiation, alignment with IFRS/IPSAS, and use of domestic adaptations, to support consideration of whether New Zealand's current approach remains fit-for-purpose.

Country & GDP*	Classification model	Key frameworks	Sector specificity
New Zealand *US$ 260bn*	Dual sector	NZ IFRS, PBE Standards (IPSAS)	Classified by entity purpose – for-profits use NZ IFRS, while Public Benefit Entities (public sector entities and charities/NFPs) use PBE Standards based on IPSAS.
Australia *US$1.76T*	Transaction-neutral (modified)	AASB Standards (IFRS-based with sector specific modifications)	The same broad standards framework applies across for-profit, public sector and NFP entities, with sector-specific modifications.
Singapore *US$547bn*	Multi-sector	Singapore Financial Reporting Standards (International) (SFRS(I)), SFRS, SFRS for Small Entities, Statutory Board-Financial Reporting Standards (SB-FRS), Charities Accounting Standard (CAS)	Classified by entity type and legal structure – listed entities apply SFRS(I), many non-listed entities apply SFRS or SFRS for Small Entities. Statutory Boards apply SB-FRS, and registered charities may apply Charities Accounting Standards (CAS).
South Africa *US$401bn*	Multi-sector	IFRS; IFRS for SMEs; Standards of Generally Recognised Accounting Practice (GRAP)(developed primarily from IPSAS)	Classified by sector and entity type – listed and many publicly accountable entities apply IFRS, private entities apply either IFRS or IFRS for SMEs, while public sector entities apply GRAP. NFPs registered as companies typically apply IFRS or IFRS for SMEs.
Finland US$299bn	Multi-sector	Finnish Accounting Standards (FAS), Eu-adopted IFRS, Finnish Accounting Act (1336/1997) and Decree (including Decree 1753/2015)	Classified by listing status and entity type – listed entities generally apply Eu-adopted IFRS, many non-listed entities apply FAS, while public sector and NFP entities are dealt with separately under Finnish Accounting Act and Decree.
Estonia *US$43bn*	Multi-sector	Estonian GAAP, EU-adopted IFRS, IPSAS-based public sector accounting guidance	Classified by listing status and entity type – listed entities generally apply EU-adopted IFRS, while many non-listed and NFP entities apply Estonian GAAP. Public sector entities apply IPSAS-based public sector reporting and guidelines issued by the Ministry of Finance.

Observations and emerging themes

- Most jurisdictions adopt multi-sector approaches (no pure sector neutrality)
- IFRS is dominant for for-profit entities whereas public sector reporting use either IPSAS-based or locally adapted frameworks
- Clear focus by some of the listed jurisdictions on balancing international alignment with domestic relevance

* Selected jurisdictions reflect a range of economic sizes, legal systems, and geographic regions to provide a broad comparative perspective. GDP data has been sourced from the World Bank (GDP).

Appendix 5

Detailed analysis of sector options

Option 1: Two-sector model

Implications and impact:

Maintains the existing distinction between profit-oriented and public benefit entities, preserving continuity with current standards, practices, and stakeholder understanding.

This option results in a low transition cost and high level of system stability, reflecting the continued use of a well-established framework; however, it also perpetuates ongoing complexity at sector boundaries and within mixed groups, and leads to continued divergence in the treatment of similar transactions across sectors.

Strengths:

- Well understood and embedded
- Supports sector-specific reporting needs
- Avoids disruption to environment
- Broad alignment with NZ policy objectives through use of IFRS and IPSAS

Weaknesses:

- Ongoing boundary complexity, including classification challenges and mixed-group reporting issues
- Comparability and consistency concerns where misalignment occurs
- Fragmentation of workforce capability across sectors, reducing flexibility and consistency

Opportunities:

- Targeted refinements (e.g. improved classification guidance, reducing unnecessary divergence)
- Introducing a mechanism that better support movement between tiers
- Ability to respond incrementally to emerging issues without introducing significant system disruption.

Risks:

- Entrenchment of known issues
- Increasing pressure for sector-neutral approaches
- Increasing complexity of mixed groups and evolving entity types that may not be well accommodated in the two-sector model over time

Overall balance:
Maintains stability and sector relevance with low disruption, but entrenches existing complexity on boundary clarity and limits system-wide efficiencies.

RAG rating: 🟠

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

Option 2: Sector-neutral model

Implications and impact:

Removes the formal distinction between for-profit and public benefit entities, applying a single set of principles. This will represent a fundamental shift in the New Zealand framework.

This option is likely to involve a higher transition cost and greater short-term disruption, reflecting changes to standards, systems, and capability. It reduces complexity arising in sector classification and supports more consistent treatment of similar transactions.

Strengths:

- Simplifies the framework by removing sector boundaries
- Increased workforce mobility and talent pool flexibility
- It may improve comparability and consistency across sectors
- Supports international and local comparability and may strengthen investor confidence if aligned with IFRS

Limitations:

- May not fully reflect sector-specific reporting needs (e.g. non-exchange transactions and accountability measures)
- Risk of loss of relevance for public benefit reporting
- Complexity may shift from sector classification to judgement in applying principles across diverse entity types

Opportunities:

- Alignment of requirements for similar transactions, regardless of sector
- Ability to reduce duplication of work across sectors
- Supports development of system-wide capability and flexibility

Risks:

- Implementation risk given scale and complexity of change
- Risk that public sector accountability and service performance reporting becomes less well reflected
- Potential resistance from stakeholders

Overall balance:

Strengthens comparability, framework simplicity and system-wide capability, but risks reduced relevance for public benefit reporting and will introduce transition complexity.

RAG rating: 🟠

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

Option 3: Three sectors

Implications and impact:

Introduces a third, distinct sector for for-purpose (NFP) entities, separating them from the broader public benefit category and recognising differences in objectives, funding models, and accountability between public sector and NFP entities.
This option may involve moderate transition cost and system change, reflecting the need to disaggregate the current PBE framework which may add complexity to sector classification challenges. However, it improves alignment of reporting with entity purpose and may enhance relevance for users of NFP financial reports.

Strengths:

- Better reflects differences in purpose and needs
- Improves relevance of reporting for for-purpose stakeholders
- Enables more targeted and proportionate standard-setting
- Retains familiar structure while refining sector distinctions

Limitations:

- Introduces an additional layer of classification and boundary complexity
- Increased duplication and maintenance burden in standard-setting across three sectors
- May reduce comparability and consistency across sectors

Opportunities:

- Ability to rationalise and tailor requirements to for-purpose entities
- Improved alignment between reporting and entity purpose
- Supports better user understanding and decision-making

Risks:

- Risk of increased sector boundary complexity
- Potential confusion for stakeholders during transition
- Ongoing inconsistencies across sectors
- Further segmentation of workforce capability, potentially reducing system-wide flexibility

Overall balance:
Enhances relevance and conceptual alignment by distinguishing sectors, but increases structural complexity and further fragments the system.

RAG rating: 🟠

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

Option 4: Segmentation approach

Implications and impact:

Introduces a more granular segmentation of entities based on their nature, function, or mandate (e.g. central and local government, Māori entities, schools/education, health, construction etc.), rather than broad sector groupings. This represents a significant shift towards a more disaggregated and tailored framework.
This option is likely to involve high transition cost and system complexity, reflecting the need to define and maintain multiple segments; however, it enables highly targeted reporting that better reflects the specific accountability, funding, and operating environments of different entity groups.

Strengths:

- Highly tailored reporting aligned to specific mandates and user needs
- Improved relevance and usefulness of information
- Better reflects diversity across entity groups, enabling targeted standard-setting

Limitations:

- High structural complexity, including multiple segment definitions and ongoing boundary challenges
- May reduced comparability across segments
- Potential duplication of standards and effort across segments
- Fragmentation of workforce capability and expertise across segments

Opportunities:

- Highly tailored reporting reflecting mandates and environments
- Improved user-focused information and accountability
- Ability to address segment-specific issues more directly
- Supports development of deep, segment-specific expertise

Risks:

- Reduced overall coherence of the financial reporting framework
- Potential confusion for users and preparers navigating multiple segments
- Increased resource and maintenance burden

Overall balance:

Maximises relevance through highly tailored reporting, but creates significant complexity, fragmentation, and challenges to the overall system coherence. This is not recommended

RAG rating: 🔴

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