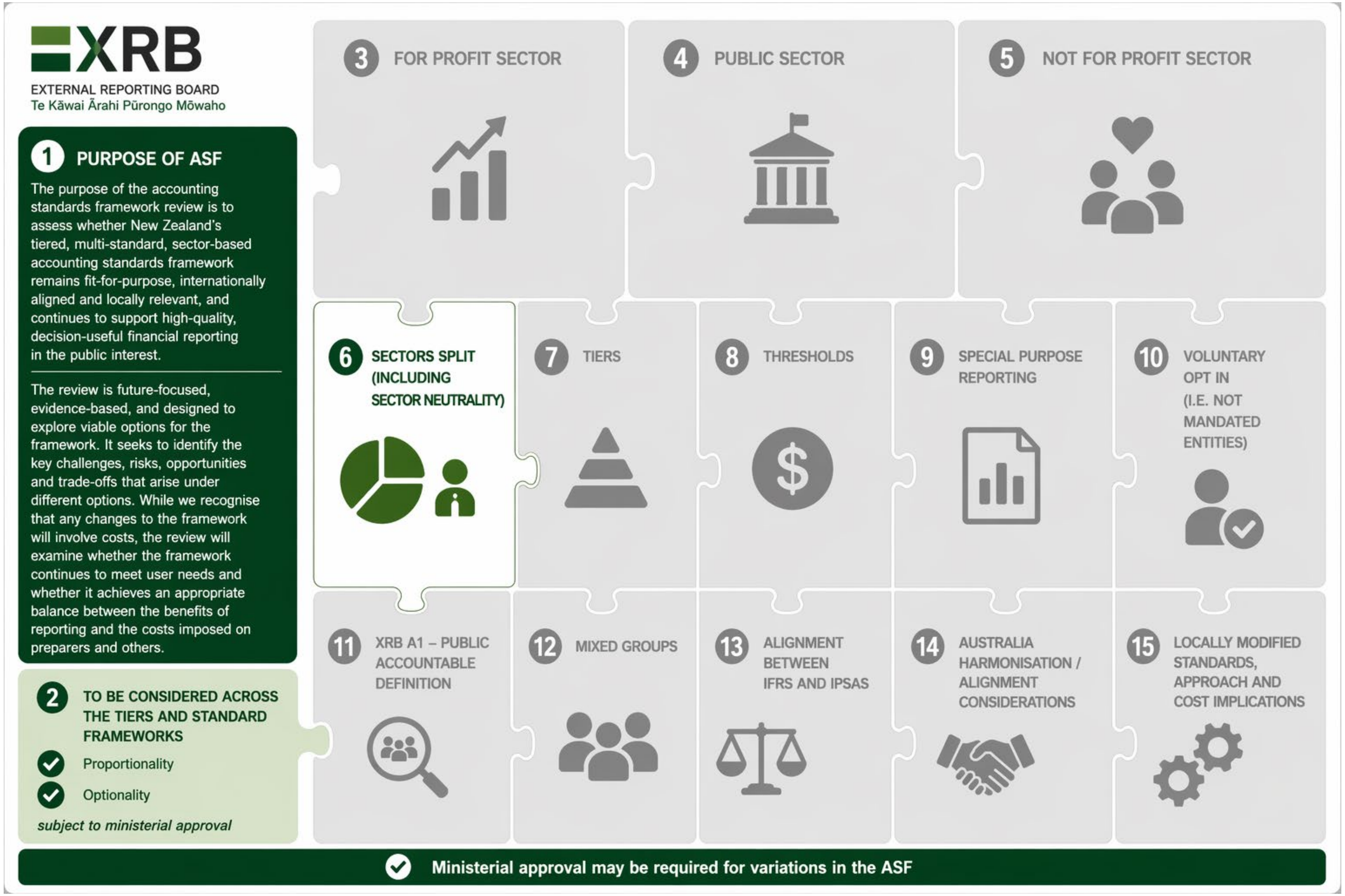
Sectors

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

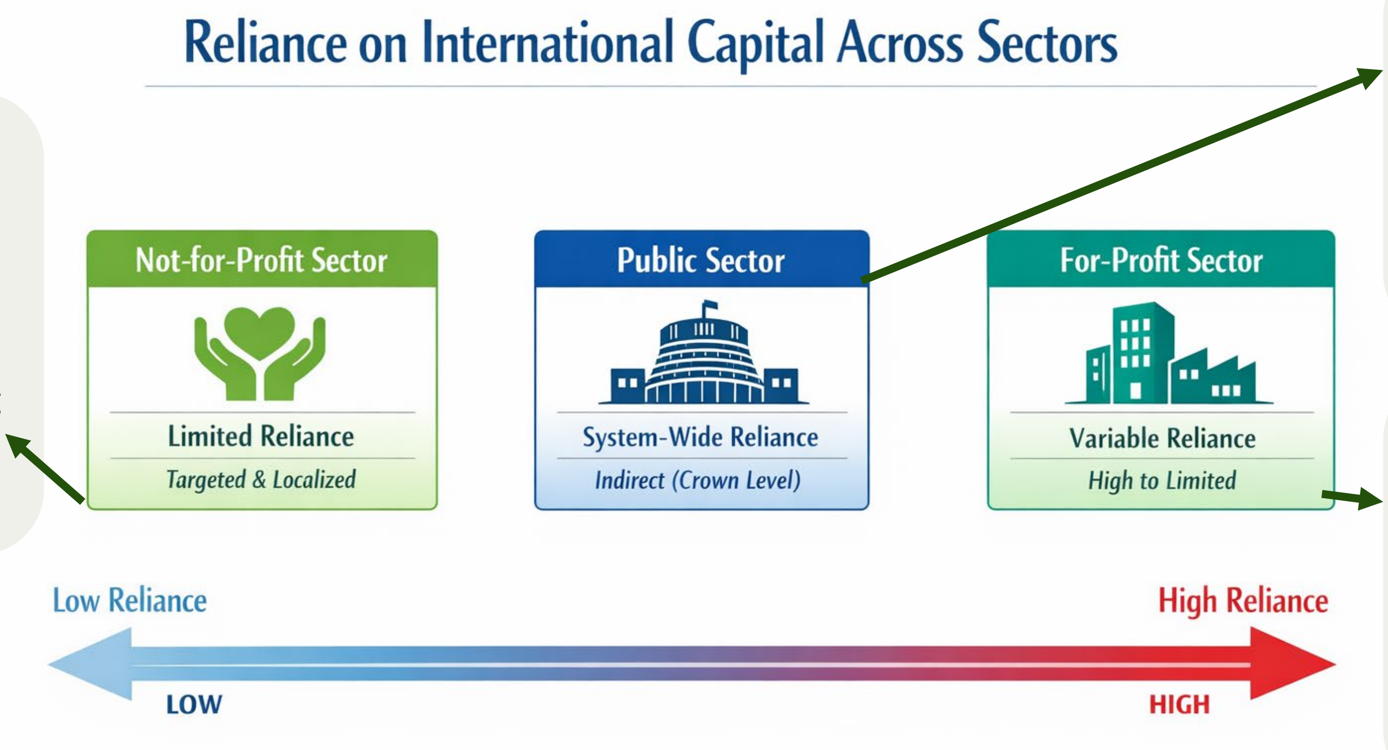
- In this environment, financial reporting functions as part of the economic infrastructure supporting capital access
- High-quality reporting supports investor confidence and comparability, sovereign creditworthiness and efficient government borrowing
- Sector design is not only a technical choice,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

Green: Aligned – minimal change needed
Yellow: Partial – IFRS covers some but not all PBE activities/context
Red: 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	Green	Preparers would be subject to similar requirements under IFRS and IPSAS[1].
Revenue (IPSAS 47)	IFRS 15	Yellow	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	Yellow	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	Red	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	Red	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: ● (amber)

- 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