Appendix 4:

Background and context to the Accounting Standards Framework (ASF)

The XRB mandate and purpose

Our mandate

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

Our purpose

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

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

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

OUR STRATEGY
Internationally aligned, locally relevant.

The New Zealand External Reporting Environment

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

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

THE GOVERNMENT
Who reports?

Statutory Reporting Framework

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

Legislation

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

Future Legislative Reform

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

THE XRB

WHAT TO REPORT

1 Accounting Standards Framework (ASF)

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

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

2 Accounting Standards

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

3 Climate Reporting Standards

Requirements for climate-related disclosures.

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

HOW TO AUDIT OR REVIEW

4 Auditing and Assurance Standards Framework

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

5 Auditing and Assurance Standards

Requirements for:

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

6 Quality Management and Ethical Standards for Assurance Practitioners

Support quality, integrity and professional ethics in assurance engagements.

OTHER REPORTING OBLIGATIONS

Other reporting

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

- Information disclosures
- Annual reports
- Integrated reporting etc.

Special Purpose Financial Statements

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

OUR STRATEGIC PRIORITIES

Fit for purpose
Ensure our reporting is fit for purpose

Supporting adoption and implementation
Support effective adoption and implementation

Integrated reporting
Continue the focus on integrated reporting

Public benefit entities
Contribute to the public interest

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

Why are we doing a review of the ASF?

The Foundation

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

A changing landscape

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

Questions in 2026

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

Purpose of the ASF review

Purpose of the ASF review

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

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

Scope of the review

What is out of scope for this review

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

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

Our current ASF

1. Two-sectors

Different suites of accounting standards for two distinct sectors based on their primary objectives:

- **For-profit entities**
- **Public benefit entities (PBEs)**
    - Public sector PBEs
    - Not-for-profit PBEs

2. Tiered approach

Different accounting requirements for each tier based on cost-benefit considerations:

- For-profit entities – **two tiers**
- PBEs – **four tiers**

3. Multi-standards

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

Background – rationale for sector approach in the ASF

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

BEFORE 2012

Sector-neutral approach

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

2009 – 2012

Concerns raised at the time

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

2012 ONWARDS

Multi-sector approach

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

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

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

Background – rationale for tiers and thresholds approach in the ASF

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

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

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

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

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

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

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

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

Our current ASF: the standards for different entities

For profit sector

For-profit entities

T1 & T2 for-profit entities

IFRS Foundation

Required or permitted in 161 jurisdictions

PBE Sector

Public sector entities

Not-for-profit entities

T1 & T2 PBEs

IPSASB

Converged with IFRS to the extent suitable for the public sector

Adopted or partially adopted in 86 jurisdictions*

*includes adoption of cash basis IPSAS

T3 & T4 PBEs

Locally developed accounting standards

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

Financial reporting requirements based on:

- Public accountability
- Economic significance
- Separation between owners and governing body

Accounting Standards Framework (ASF)

XRB levers

1. Two-sector approach

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

2. Tiered approach

Different accounting requirements based on cost-benefit considerations.

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

3. Multi-standards

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

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

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

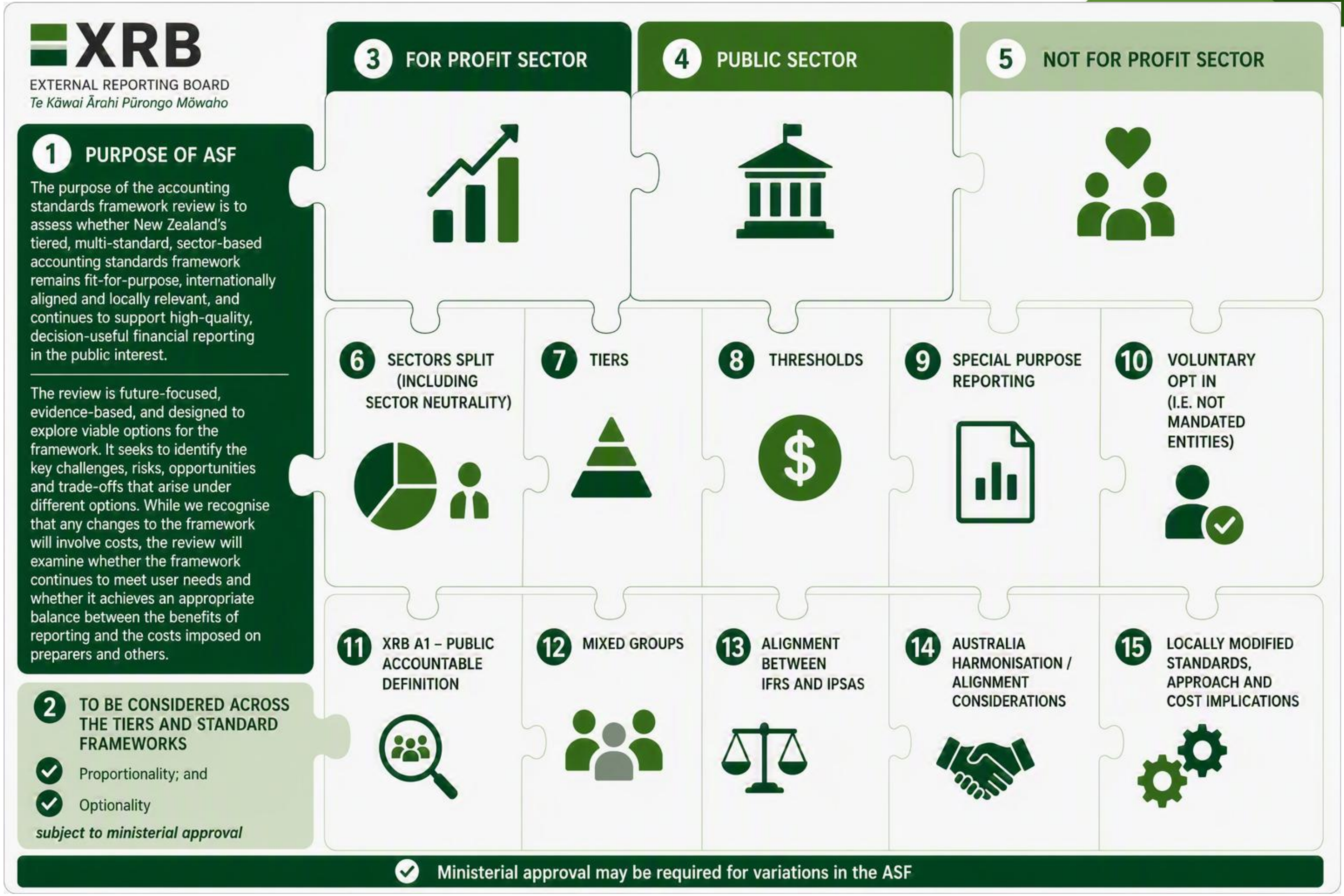
An entity identifies its sector and tier, then applies the applicable standards.

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

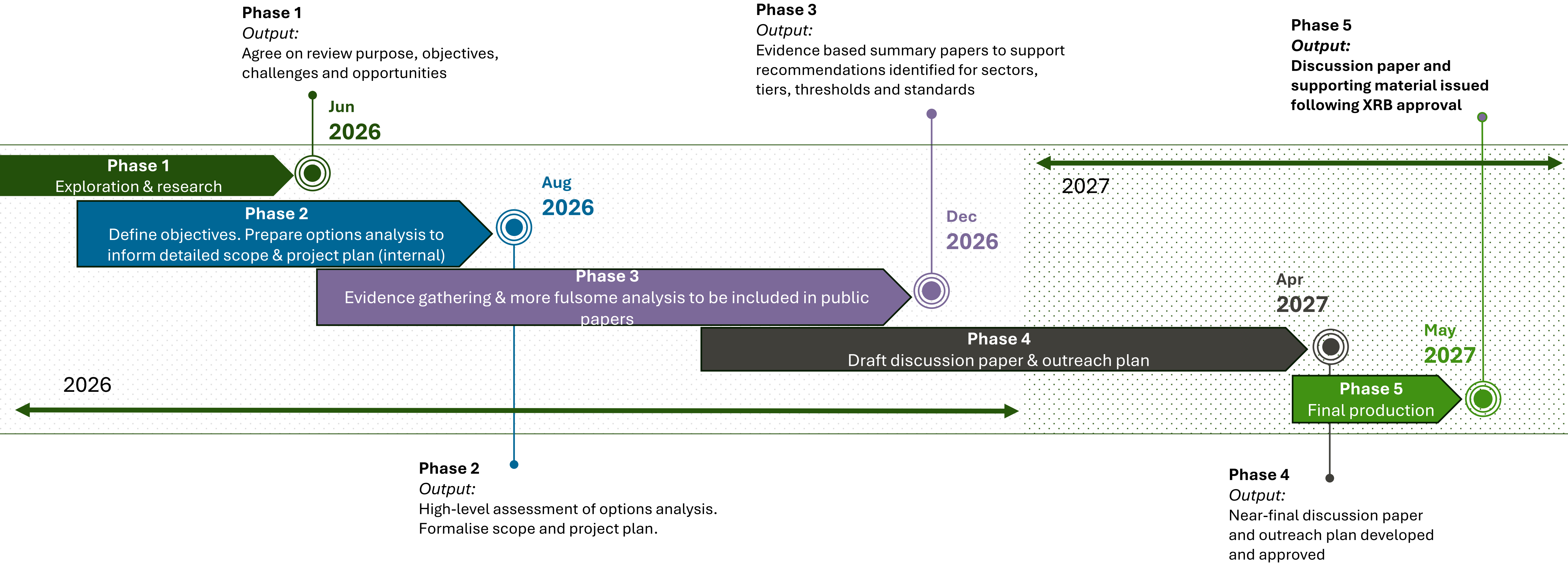
PBE public sector and not-for-profit entities		Framework
Tier 1	• Public accountability; or • Large PBE with total expenses > $33 million	PBE Standards
Tier 2	• No public accountability • Total expenses ≤ $33 million	PBE Standards RDR
Tier 3	• No public accountability • Total expenses ≤ $5 million	Tier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

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

ASF review – elements we will consider and analyse



Timeline and phases of the ASF review



Phase 3 - The methodology/approach for the options analysis

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

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

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

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

3. Considers the information needs of users and preparers.

4. Considers international practice and international alignment.

5. Identifies key challenges with the current standards.

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

7. Make recommendations for NZASB and XRB consideration

End of agenda item 6.1a