

Memorandum

To: NZASB Members

Meeting date: 12 October 2026

Subject: **Review of the Accounting Standards Framework (ASF) – Public sector Tier 1 and Tier 2 framework review**

Date: 1 October 2026

Prepared by: Raveen Kaur

Inputs by: Alex Stainer

Through: Gali Slyuzberg; Michelle Lombaard

☒ **Action Required**

☐ **For Information Purposes Only**

Purpose

1. The purpose of this paper is to assess the reporting framework options for Tier 1 and Tier 2 public sector entities that are public benefit entities (**PBEs**) as part of the broader Accounting Standards Framework (**ASF**) review.

Recommendations

2. We recommend the Board:
 - (a) **NOTE** the evidence and framework analysis of the current Tier 1 and Tier 2 public sector reporting frameworks, the alternative framework options considered, and the key drivers from the criteria and RAG assessment;
 - (b) Provide **FEEDBACK** on whether the paper appropriately reflects the characteristics, legislative context, international practice and alignment, users' needs and preparer considerations, practical challenges and framework options relevant to Tier 1 and Tier 2 public sector PBEs.
 - (c) Provide **FEEDBACK** on the proposed information and stakeholder questions relating to Tier 1 and Tier 2 public sector PBEs for the public discussion paper ([blue text](#)).

Scope and how to read this paper

3. This paper focuses on the public sector entities that are required to report under the current PBE Standards in Tier 1 or are eligible to report in Tier 2 under XRB A1. It should be read together with the **PBE sector overview paper**, which sets out the common PBE context and assessment approach. Rather than repeating that information, this paper draws on the common context, assessment approach and framework-level criteria and applies it on matters that are specific to the Tier 1 and Tier 2 public sector reporting populations, including proportionality, interoperability between tiers, framework coherence and transition implications.
4. The paper does not reassess which entities are required by legislation to prepare GAAP-compliant financial statements, or the public accountability definition in XRB A1, or the tier thresholds or legislative reporting thresholds. Those matters have been or will be addressed separately as part of the broader ASF review in the **Definition of public accountability paper** and the **Tiers and Thresholds papers**.

5. The analysis in this paper is conducted at the reporting-framework level. It considers the framework bases and proportionality mechanisms that could apply to Tier 1 and Tier 2 public sector PBEs, rather than proposing detailed changes to the individual recognition, measurement, presentation or disclosure requirements in the current standards. Any detailed standard-level changes will require separate technical analysis, due process and public consultation by the External Reporting Board (**XRB**) before they could be issued.
6. The assessment distinguishes matters that could be materially affected by framework design from matters driven primarily by legislation, individual standards, funding arrangements, data and systems, valuation processes, audit capacity, implementation timing or the inherent complexity of public sector activities etc. A change in reporting framework should therefore be considered only where it would materially improve the relevant reporting issues after taking into account transition costs, ecosystem coherence and other potentially wider implications.

Contents of this paper

Section in the tier papers	Purpose of the section
<u>Background and context for Tier 1 and Tier 2 entities</u>	Provides the tier-specific context needed to understand the reporting population, current requirements and framework options considered in the paper.
<u>Legislative and regulatory environment</u>	Explains the legislative and regulatory settings that determine which entities prepare GAAP-compliant financial statements and how tier eligibility applies.
<u>Characteristics of the reporting population</u>	Describes the nature, scale and diversity of entities within the relevant tier, including features that may affect the framework assessment.
<u>Information needs of users and preparer considerations</u>	Considers the information needs of users and the practical, audit and cost considerations for preparers applying the framework.
<u>International practice, alignment and comparability considerations</u>	Considers approaches used in other jurisdictions and how international alignment affects comparability, recognisability and sustainability of the reporting framework in New Zealand.
<u>Practical challenges with the current framework</u>	Explains the current framework challenges and or implementation issues.
<u>Reporting framework options considered</u>	Identifies the framework options considered for the relevant tier, including the current framework and alternative options within the scope of the tier paper.
<u>Framework coherence considerations</u>	Considers whether the framework options would support flexibility within the tier while maintaining coherence, comparability, understandability and operability across Tier 1 and Tier 2 public sector PBE entities.
<u>Analysis of framework options</u>	Assesses each framework option using the common ASF framework-level criteria and identifies the key benefits, trade-offs and implications of each option.
<u>Summary observations and framework options for consultation</u>	Summarises the overall assessment and identifies the framework option (or options) to be presented for consideration in the public discussion paper.

Background and context for Tiers 1 and 2

Current Tier 1 and Tier 2 reporting framework for public sector entities

7. Tier 1 public sector PBEs apply the full PBE Standards. Tier 2 public sector PBEs apply the same recognition and measurement requirements, with reduced disclosure requirements, referred to as PBE Standards RDR. This shared standards base is primarily based on International Public Sector Accounting Standards (**IPSAS**), supplemented by International Financial Reporting Standards (**IFRS**) and domestic requirements where relevant to suit the New Zealand PBE reporting environment. Because movement between Tier 1 and Tier 2 does not currently require a change in recognition and measurement basis, this paper considers two important questions: first, whether the current primarily IPSAS-based PBE Standards remain appropriate for Tier 1 and Tier 2; and second, whether the reduced disclosures provide sufficient proportionality for entities eligible to apply Tier 2 reporting requirements.

Why the current PBE Standards are primarily IPSAS-based

8. The current PBE Standards were developed with IPSAS as the primary international reference point following the XRB's decision to adopt a multi-standards approach that better reflects the different reporting objectives and information needs of for-profit entities and PBEs. The XRB considered IPSAS a more appropriate basis for PBE reporting than IFRS because IPSAS is developed for public sector entities whose primary objective is to deliver services rather than generate financial returns for investors. IPSAS also addresses the information needs of a wider group of users, including service recipients and resource providers, and supports accountability for the use of public resources, stewardship of significant public assets, and financial reporting by both central and local government entities. The XRB adopted a primarily IPSAS-based framework, rather than IPSAS without modification, to allow for New Zealand-specific modifications and requirements relevant to both public sector and not-for-profit entities.¹
9. The Tier 1 and Tier 2 public sector frameworks are being considered together because they share the same recognition and measurement basis but serve populations with different scale, capability and proportionality considerations. The review tests whether the current reporting basis remains fit for purpose for Tier 1, and whether the Tier 2 reduced disclosure mechanism provides an appropriate level of proportionality for eligible public sector entities in Tier 2. The review does not start from an assumption that either framework should be changed or be retained.
10. Since the current PBE framework was established, the international public sector standard-setting environment has continued to develop. IPSASB has expanded and updated the IPSAS suite and, under its 2024–2028 strategy, has rebalanced its work programme towards maintenance and consistent application.² New Zealand has also continued to develop PBE Standards through its own consultation and due process, guided by the PBE Policy Approach when considering whether and how new or amended IPSAS should be incorporated into the New Zealand suite.³ This continuing development is relevant because it means the current

¹ XRB, [2019 Targeted Review of the New Zealand Accounting Standards Framework \(July 2019\)](#), paragraphs 4.7–4.11, provides the rationale behind selection of IPSAS as the base for the PBE Standards and why they were not adopted in their entirety; and XRB A1 *Application of the Accounting Standards Framework*, paragraphs BC34–BC35.

² [IPSASB, 2024–2028 Strategy and Work Program \(17 October 2024\)](#), which rebalances the work programme towards maintenance of IPSAS and sustainability reporting.

framework is not static; it continues to evolve through both IPSASB standard-setting and the New Zealand domestic due process.

Relationship between IPSAS and IFRS Accounting Standards

11. Many IPSAS requirements have a close relationship with IFRS Accounting Standards which are set by the International Accounting Standards Board (**IASB**). IFRS Accounting Standards often provide the starting point for the International Public Sector Accounting Standards Board (**IPSASB**) when developing the related IPSAS requirements. IPSASB also has a formal process for considering IASB documents for alignment and determining whether identified public sector issues warrant departures when developing related IPSAS requirements. The IPSAS suite also contains requirements developed specifically for public sector transactions and circumstances.⁴ This relationship means the current PBE Standards are not disconnected from IFRS-based reporting, but instead they adapt or supplement IFRS-based requirements where public sector considerations indicate that different treatment may be needed.
12. The detailed differences between IPSAS Standards and IFRS Accounting Standards, including the implications of those differences for New Zealand public sector reporting, are considered in more detail in the separate **Alignment between IPSAS and IFRS Accounting Standards paper**. This paper uses that analysis as an input to the framework assessment rather than repeating standard-by-standard differences here.

Evidence from previous review work

13. Previous review work undertaken by the XRB provides useful, although dated, evidence about the operation of the current PBE Standards framework across Tiers 1 and 2. The XRB's 2019 targeted review concluded that, in general, application of the framework had not resulted in significant unintended consequences and was operating as intended. It also indicated general support for maintaining close alignment of PBE Standards with IPSAS.⁵ That feedback provides a starting point for this current review but should be retested through current outreach because stakeholder views, implementation experience and reporting pressures may have changed.

Broader context of public sector reporting

14. In the public sector, general purpose financial reports prepared in accordance with accounting standards are part of a broader accountability mechanism. For example, as explained on the [Audit Office website](#), accountability and stewardship documents published by the New Zealand Government and/or government departments and agencies include budget policy statements, statements of intent, budgets, Estimates and the main Appropriations Bill, long-term fiscal statements, long term insights briefings and certain other accountability and stewardship documents – in addition to the annual report containing the financial statements. Furthermore, governments (including the New Zealand Government) also report statistical information to support macroeconomic and fiscal policy analysis – see the discussion on the Government Finance Statistics Manual in this memo.
15. Accountability to citizens and their representatives is important in the public sector context. The World Bank's publication on the [Worldwide Governance Indicators](#) notes that “When

³ [XRB, EG A2 Overview of the Accounting Standard-setting Process](#), paragraphs 25–38, which outline the NZASB's due process for developing PBE Standards based on IPSASB pronouncements; and [XRB, Policy Approach to Developing the Suite of PBE Standards \(August 2020\)](#), paragraphs 19 and 22–25, which outline the considerations applied when determining whether to incorporate new or amended IPSAS into PBE Standards, including potential New Zealand-specific modifications.

⁴ [IPSASB, Process for Reviewing and Adapting IASB Documents \(13 October 2023\)](#), section describing the alignment process and assessment of public-sector issues warranting departures.

⁵ [XRB, Targeted Review of the Accounting Standards Framework](#), “Outcome” and background to the 2019 review. The XRB reported that, in general, application of the framework had not resulted in significant unintended consequences and was operating as intended; the review also sought feedback on close alignment between PBE Standards and IPSAS.

institutions ensure accountability—through transparent budgeting, performance monitoring, and citizen engagement—resources are more likely to reach intended beneficiaries. Likewise, [...] improving service delivery depends on strengthening accountability across the chain of actors involved [...]. This publication notes that one element of good governance in the public sector is “voice and accountability”, which includes the extent of “accountability mechanisms for citizens—reflected in the ability to access information, governmental oversight bodies, and a robust traditional and digital media landscape”.

16. While general purpose financial statements – and service performance information reporting by government departments and agencies – are only one part of the broader mechanisms supporting accountability in the public sector, they are arguably an important part of these mechanisms.

Legislative and regulatory environment

Reporting obligations and tier allocation

17. Legislation determines which public sector entities are required to prepare financial statements or other reports in accordance with generally accepted accounting practice (**GAAP**). Under the Financial Reporting Act 2013, GAAP comprises compliance with applicable financial reporting standards and, for matters not addressed by those standards, authoritative notices issued by the XRB for preparing those reports. The XRB issues accounting standards for the preparation of general purpose financial reports (**GPFR**), which are intended to meet the information needs of users who cannot require tailored information from the entity. XRB A1 applies to entities that have a statutory obligation, or opt under an enactment, to prepare GPFR in accordance with XRB accounting standards. It determines the applicable sector, tier and accounting requirements. The ASF does not create those reporting obligations; these arise through legislation. The broader legislative pathway is addressed in the **Background and context paper**. The legislation discussed below is illustrative rather than exhaustive; other enactments may also require public sector entities to prepare financial statements in accordance with GAAP.
18. Examples of legislation relevant to the Tier 1 and Tier 2 public sector reporting environment include the Public Finance Act 1989 and the Crown Entities Act 2004⁶. The Public Finance Act requires the annual financial statements of the Government and departmental annual financial statements to be prepared in accordance with GAAP. The Crown Entities Act requires Crown entity annual financial statements to comply with GAAP. The applicable XRB A1 tier is then determined separately.
19. Local authorities operate within a separate statutory reporting environment. The Local Government Act 2002 requires annual reports to include audited financial statements for the local authority and audited consolidated financial statements, together with broader statutory reporting information, including information on activities and performance and audited funding impact statements. The Act specifies that the purpose of the annual report include comparing actual activities and performance against planned activities and performance and promoting accountability to the community.⁷ These requirements illustrate that, for local authorities, Tier 1 and Tier 2 public sector financial reporting operate alongside broader statutory accountability and performance reporting requirements.

⁶ [Public Finance Act 1989, s 27](#) (annual financial statements of Government) and [s 45B](#) (departmental annual financial statements); [Crown Entities Act 2004, s 154](#) (annual financial statements).

⁷ [Local Government Act 2002, ss 98 and ss 111](#), and [Part 3 of Schedule 10](#), including the annual report's accountability purpose and requirements for audited financial statements and other statutory reporting information.

Public accountability and broader public sector accountability

20. The technical definition of public accountability in XRB A1, which is used for determining tier eligibility, is narrower than the broader accountability obligations of public sector entities. Depending on the entity, its accountability relationships may extend to Parliament and other elected representatives, Ministers, taxpayers, ratepayers, service recipients, donors and other funders, creditors and lenders, investors – including, for the Government reporting entity, investors in New Zealand Government Bond markets where relevant – regulators and oversight bodies, communities and the wider public.⁸ The **Definition of public accountability paper** considers the technical definition and its interaction with tier allocation in more detail.
21. For this combined assessment, the wider public sector accountability environment remains relevant to the needs of these users and technical fitness, even where an entity is allocated to a tier because of size rather than technical public accountability. The framework therefore needs to support reporting about stewardship of public resources, financial position and performance and, where required, service performance, while allowing the level of reporting to remain proportionate to the relevant tier.

Figure 1: Summary of current Tier 1 and Tier 2 public sector allocation and reporting basis

Tier	Tier allocation	Current reporting basis
Tier 1⁹	- Has public accountability under XRB A1; or - Is ‘large’ (total expenses > \$33 million); or - Is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.	Full PBE Standards.
Tier 2¹⁰	- Does not have public accountability; and - is not ‘large’ (total expenses > \$5 million but < \$33 million).	PBE Standards RDR - same recognition and measurement as Tier 1, with reduced disclosure requirements.

Characteristics of the reporting population

Tier 1 reporting population

22. The Tier 1 public sector population comprises larger public sector PBEs applying the full PBE Standards. Based on information available to the XRB, technical public accountability as defined in XRB A1 may apply to only a very small number of public sector PBEs (e.g. those that issue bonds to the public), suggesting that size is the largest driver of the observed Tier 1 population.¹¹ The separate **PBE tiers and thresholds paper** considers these reporting tiers and thresholds in more detail separately, and whether those allocation criteria remain appropriate.
23. The Tier 1 population comprises the Government reporting entity, government departments, local authorities, some Crown entities and other public sector PBEs that meet the Tier 1 criteria. As shown in Figure 2, internal XRB information identifies an indicative Tier 1 public sector population of 189 entities. This is substantially smaller than the reported Tier 2 population after adjusting for schools, as discussed later in this paper. Unlike Tier 2, the Tier 1 population is

⁸ This paragraph describes the broader accountability relationships of public sector entities and is not intended to restate the PBE Conceptual Framework’s definition of primary users of GPFR. The Conceptual Framework identifies service recipients and resource providers, and their representatives, as the primary users of GPFR.

⁹ XRB, XRB A1 *Application of the Accounting Standards Framework*, [paragraphs 37-38](#).

¹⁰ XRB, XRB A1 *Application of the Accounting Standards Framework*, [paragraphs 39](#).

¹¹ XRB internal information on the composition of the Tier 1 public sector PBE population.

unchanged by the schools adjustment, reinforcing that schools materially affect the composition of Tier 2 rather than Tier 1.

24. The population considered in this paper therefore extends beyond the Treasury or central government environment and spans both central and local government. For the purposes of this assessment, the Tier 1 framework needs to operate effectively across this broader public sector population, while recognising that entities may differ in their functions, funding arrangements, accountability relationships and transaction profiles.

What distinguishes Tier 1 from Tier 2?

25. The practical distinction between Tier 1 and Tier 2 is narrower than a change of accounting framework. Both tiers apply the same recognition and measurement requirements under the PBE Standards. Tier 1 applies the full PBE Standards, while Tier 2 provides proportionality through reduced disclosure concessions under PBE Standards RDR.¹²
26. This is relevant to the combined assessment because, if Tier 1 moved to a different recognition and measurement basis for Tier 1 while Tier 2 did not, the tiers would no longer share a common accounting basis. This could affect comparability between tiers, movement between tiers, the preparation of consolidated financial statements where entities within a group apply different tiers, and the benefits of preparers and users being familiar with a common set of recognition and measurement requirements.

Nature and diversity of Tier 1 public sector activities

27. Tier 1 public sector PBEs are not a homogeneous population. Depending on the entity, activities may include policy and regulatory functions, public service delivery, infrastructure and asset management, grant-making and transfer programmes, financing and investment activities, and management of long-term obligations, including employee benefits. Some entities may also control, or form part of, large and complex groups.
28. These characteristics matter to the framework assessment because a Tier 1 framework must be capable of addressing both transactions common to other sectors and matters that arise particularly in the public sector. It must also support consolidated reporting and provide information that supports accountability and decision-making, including information about the management and use of public resources and, where relevant, service performance.

Evidence of scale

29. At the whole-of-government level, the 2025 Financial Statements of the Government reported total assets of \$598.0 billion, including \$292.6 billion of property, plant and equipment, and total expenses of \$183.5 billion.¹³ These figures do not represent the full Tier 1 public sector PBE population because the Government reporting entity has a different reporting boundary; notably, local authorities are not included in the Government financial statements.¹⁴ The whole-of-government financial statements will also consolidate controlled entities that may apply Tier 2 – Tier 4 requirements at entity level. These numbers do, however, illustrate to some extent, the scale of a major Tier 1 reporting entity and the consolidation and stewardship environment that the Tier 1 framework must be capable of supporting.

¹² XRB, XRB A1 *Application of the Accounting Standards Framework*, paragraphs 43–44 and BC36, which provide that Tier 1 and Tier 2 PBE Accounting Requirements have the same recognition and measurement requirements, with Tier 2 providing disclosure concessions. See also BC24 for the benefits of retaining common recognition and measurement requirements across the two tiers.

¹³ [The Treasury, Financial Statements of the Government of New Zealand for the Year Ended 30 June 2025](#), Financial Statements Summary and audited financial statements, including the Statement of Financial Performance, p. 38, and Statement of Financial Position, p. 44.

¹⁴ [The Treasury, A Guide to the Public Finance Act \(2026 edition\)](#), Chapter 4, on the composition of the Government reporting entity and exclusion of local authorities; The Treasury, [Financial Statements of the Government of New Zealand for the Year Ended 30 June 2025](#), on equity-accounted investments.

30. The same financial statements illustrate the transaction profile relevant to technical fitness: \$121.1 billion of taxation revenue, \$44.7 billion of transfer payments and subsidies, material financial assets and derivatives, and specialised asset classes including state highways, electricity generation assets, the rail network, cultural and heritage assets and specialist military equipment.¹⁵ The framework therefore needs to deal with sovereign revenue, transfers, and long-lived specialised assets as well as transactions common to other sectors.
31. Local government presents a different profile. New Zealand has 78 local authorities.¹⁶ Local government owns and operates 26% of New Zealand's infrastructure assets, valued at approximately \$76 billion.¹⁷ The Auditor-General has also observed that council balance sheets are dominated by recorded asset valuations and that relatively small inaccuracies in key valuation assumptions could result in material misstatement.¹⁸ Although this evidence relates to the wider local government population rather than Tier 1 alone, it illustrates the scale and significance of the public resources managed by councils and their corresponding accountability to ratepayers, communities and other users of their financial reports.

Public sector financing and capital-market relevance

32. Access to capital markets is relevant to central government because the Crown raises significant funding through New Zealand Government Bond (NZGB) markets, which has substantial non-resident participation. Forecast gross NZGB issuance for 2026/27 is NZ\$34 billion, and NZGBs outstanding are forecast at approximately NZ\$224 billion, at face value, at 30 June 2027.¹⁹ As at 31 May 2026, 60% of the NZGBs²⁰ were held by non-resident investors and therefore a material part of the sovereign bond investor base. This supports the relevance of maintaining financial reporting that is transparent, internationally credible and understandable to users in global capital markets.
33. Capital-market relevance is not limited to central government. Some local authorities also access domestic and international debt markets directly, while the wider local government sector accesses market funding through the Local Government Funding Agency.²¹ LGFA forecasts gross bond issuance of approximately NZ\$4.7–4.8 billion a year over 2026/27 to 2028/29 and expects to use a mix of NZD bonds and bills, foreign-currency bonds and Euro-commercial paper (ECP).²² Although LGFA itself is a for-profit entity applying NZ IFRS, its borrowing programme provides broader context on the scale and international reach of market financing used to fund the local government sector. This reinforces that the Tier 1 assessment

¹⁵ [The Treasury, Financial Statements of the Government of New Zealand for the Year Ended 30 June 2025](#), including pp. 65–67 for taxation revenue; p. 71 for transfer payments and subsidies; pp. 83–87 and 133–146 for financial assets and derivatives; and pp. 88–103 for major classes of property, plant and equipment.

¹⁶ [Department of Internal Affairs, Local Government Policy – Local Authorities \(78 local authorities\)](#)

¹⁷ New Zealand Infrastructure Commission/Te Waihangā, (2024), [Build or maintain? New Zealand's infrastructure asset value, investment, and depreciation, 1990–2022](#), p. 6; and [Is local government debt constrained? A review of local government financing tools](#), p. 3. (26% of NZ infrastructure assets; at least \$76 billion).

¹⁸ [Office of the Auditor-General, Results of council audits in 2025](#), “Asset valuations”

¹⁹ [New Zealand Debt Management, New Zealand Government Bond Programme Update – BEFU 2026 \(28 May 2026\)](#), “2026/27 New Zealand Government Bond Programme Set at NZ\$34 Billion gross issuance” and the forecast table showing NZGBs outstanding of NZ\$224.3 billion, at face value, at 30 June 2027.

²⁰ [New Zealand Debt Management, New Zealand Government Securities Overview 2026/27 \(31 July 2026\)](#), “Considerations for non-residents” (60% of NZGBs held by non-resident investors at 31 May 2026).

²¹ For example, Auckland Council applies Tier 1 PBE Accounting Standards and reports bonds listed in New Zealand and overseas markets. See Auckland Council, [Annual Report 2024/2025 – Volume 3 Financial Statements](#). New Zealand [Local Government Funding Agency, Risk management](#), “Treasury Risk Management”, noting that LGFA raises funding through domestic and international debt capital markets and on-lends the funds raised to participating local authorities and council-controlled organisations.

²² [New Zealand Local Government Funding Agency, LGFA SOI 2026-2029 and Forecast Borrowing Programme \(30 June 2026\)](#), Bond Issuance Programme: FY27 NZ\$4.655b, FY28 NZ\$4.770b, FY29 NZ\$4.800b; financing sources include NZD bonds and bills, foreign-currency bonds and ECP.

should consider the financing and reporting environment of local government as well as the Crown.

34. The Reserve Bank notes that government bond markets can affect investor confidence and borrowing costs and that the New Zealand financial system is closely connected to global capital markets.²³ These observations reinforce the relevance of the international credibility and understandability of public sector reporting when assessing the Tier 1 framework. However, they do not establish that capital providers prefer any particular accounting framework, or that adopting a particular framework would lower borrowing costs or increase capital flows. Those propositions would require direct evidence from capital providers and other market participants.
35. The broader financing environment also places limits on what can be attributed to the accounting framework. The OECD reports that New Zealand's general-government investment reached around 4.9% of GDP in 2025, among the highest in the OECD, and notes that local government revenue and debt-ceiling constraints restrict councils' ability to undertake investment regardless of the financing source, whether through LGFA or private markets.²⁴ The ASF can support transparent and credible reporting about public resources and financing, but it cannot itself resolve structural funding, revenue or infrastructure-investment constraints.
36. Overall, this evidence establishes that capital providers, including non-resident investors, are a relevant user group for some Tier 1 public sector PBEs. It therefore supports considering international credibility and understandability as relevant factors in assessing the Tier 1 framework. It does not establish that capital-market considerations should outweigh broader public accountability objectives or that any particular accounting framework would produce better financing outcomes.

Tier 2 reporting population

37. Tier 2 public sector PBEs considered in this combined assessment are entities required to prepare GAAP-compliant financial statements that are eligible to apply the Tier 2 PBE Accounting Requirements. Although they do not meet the Tier 1 allocation criteria summarised earlier, they remain subject to public sector accountability arrangements. The Tier 2 framework is intended to provide proportionate reporting through reduced disclosures rather than a different recognition and measurement basis. Entities that are not required to report under the ASF but voluntarily elect to apply Tier 2 are not the focus of this assessment.
38. Internal XRB information identified approximately 2,602 public sector entities reporting in Tier 2, of those approximately 2,417 are schools. Around 605 schools fall within the Tier 2 total expenses threshold, while the remaining approximately 1,812 schools — about 75% of the school population currently reporting in Tier 2 — would otherwise be eligible to report in a lower tier under XRB A1. Excluding those lower tier eligible schools would reduce the indicative Tier 2 public sector population to approximately 790 entities, comprising around 605 schools and 185 other public sector entities. Schools therefore materially influence both the size and composition of the reported Tier 2 population. Schools that are not in Tier 1 currently apply Tier 2 PBE Standards under the Ministry of Education's prescribed school financial reporting

²³ Reserve Bank of New Zealand, *Financial Stability Report May 2026, Chapter 2*, "Global fiscal sustainability and implications for financial stability": sovereign bond markets, investor confidence, borrowing costs and New Zealand's integration with global capital markets.

²⁴ OECD, *OECD Economic Surveys: New Zealand 2026*, pp. 138–139, section 4.4.4 "Mobilising capital market finance for infrastructure investment": p. 138 notes that New Zealand's general-government investment reached around 4.9% of GDP in 2025, among the highest in the OECD; p. 139 identifies local-government revenue and debt-ceiling constraints as restricting councils' ability to undertake investment regardless of funding source, including through LGFA or private markets.

framework,²⁵ including schools that may otherwise be eligible to elect a lower tier under XRB A1. This paper does not assess whether those schools should continue to report in Tier 2 and excludes them from the fit-for-purpose framework-level assessment. That issue, including the proportionality of the current reporting outcome for schools, will be considered in the separate **Tiers and Thresholds paper**.

Figure 2: Indicative Tier 1 and Tier 2 public sector reporting populations

Tier	Public sector	Public sector (schools adjusted)	Charities	Incorporated societies (estimated) ²⁶
Tier 1	189	189	132	5,597 across Tiers 1-3
Tier 2	2,602	790	644	
Tier 3	169	1,981	7,563	
Tier 4	40	40	18,481	3,552

Key observations

The Tier 1 population appears to be driven primarily by the large-PBE criterion rather than by the technical public accountability definition.

The Tier 2 population is heavily influenced by schools. The profile of the tier may change materially if schools that are eligible for lower tiers move to those tiers.

Information needs of users and preparer considerations

Users and accountability needs

39. The primary users of PBE general purpose financial reports are resource providers, service recipients and their representatives. In the public sector these users can include investors, taxpayers, ratepayers, donors, grantors, Parliament or other elected representatives, service recipients, lenders and other parties that cannot require information tailored to their individual needs. The objective of PBE GPFR is to provide information to these primary users for accountability and decision-making purposes. The underlying accountability objective is common across Tiers 1 and 2, although the nature and extent of information needed may differ by entity and tier.
40. Users may use Tier 1 and Tier 2 public sector reporting to assess how public resources have been raised and used, financial position and sustainability, financial performance and cash flows, management and use of resources, compliance with relevant obligations and, where applicable, service performance. In relation to service performance specifically, [PBE FRS 48 - Service Performance Reporting](#) notes that users are generally interested in whether resources have been used for their purpose, what has been achieved with the resources available, and whether more could have been achieved.²⁷
41. The PBE Conceptual Framework identifies service recipients and their representatives, and resource providers and their representatives, as the primary users of PBE GPFR, and states that their information needs are likely to overlap in many respects. These needs include information about service and financial performance, the management and use of resources, compliance with relevant requirements, liquidity and solvency, long-term sustainability, and the capacity to

²⁵ Ministry of Education, [Financial Information for Schools Handbook \(November 2025\)](#), section 6.2, p. 91, which requires school and kura financial statements to apply the PBE Reduced Disclosure Regime.

²⁶ Source: Ministry of Business, Innovation and Employment, 2024

²⁷ XRB, [PBE FRS 48 Service Performance Reporting, IN4-IN5](#) (which notes that users of PBE GPFR rely on those reports for accountability and decision-making and, in relation to service performance, are generally interested in whether funds have been used for their intended purpose, what has been achieved with the resources available, and whether more could have been achieved).

fund and deliver services in future periods. The Conceptual Framework does not differentiate these information needs by reporting tier. XRB A1 addresses proportionality for eligible Tier 2 PBEs through disclosure concessions while retaining the same recognition and measurement requirements as Tier 1.²⁸ The relevant question for this review is therefore not whether Tier 1 and Tier 2 users have fundamentally different information needs, but whether those common accountability and decision-making needs can be met for users of Tier 2 entity financials through proportionate level of disclosure.

42. Existing public evidence does not establish whether the current Tier 2 reduced disclosure requirements appropriately balance user information needs with preparer and audit burden. This remains an evidence gap for the Tier 2 proportionality assessment.
43. For some Tier 1 public sector entities, lenders and domestic and overseas bond investors may be users of published financial information.²⁹ As discussed earlier in this paper in the section on public sector financing and capital-market relevance, this makes the international credibility and understandability of public sector reporting relevant to the framework assessment. The remaining evidence question is whether these users rely on GPFRs in practice and whether the standards base materially affects their assessment of an issuer.

Preparer, audit and operational considerations

44. The capability and resources available to implement new or amended standards can vary significantly across the public sector. Smaller public sector entities may have limited finance resources and access to specialist accounting expertise, meaning that the cost and effort of implementing changes may be proportionately greater for them, even where the underlying recognition and measurement requirements of the standards are the same.
45. The available evidence reviewed does not identify access to specialist capability in applying PBE Standards as a recurring cause of reporting or audit difficulties for Tier 1 and Tier 2 entities. Public audit evidence relating to local government points more directly to issues such as asset valuation, systems and controls, the completeness and quality of auditable information, and timeliness.³⁰ These matters are relevant to the complexity and auditability of public sector reporting, but do not by themselves indicate that the accounting standards basis is the underlying cause.
46. The framework also needs to operate across the wider public sector reporting ecosystem. Relevant considerations include auditor capability, consistency of application, guidance and implementation support, the interaction with government and regulatory reporting processes, systems used across public sector groups, and the XRB's capacity to maintain the standards over time.

International practice, alignment and comparability considerations

IPSAS as the primary international reference point

47. IPSAS Standards are the principal international reference point for the public sector Tier 1 and Tier 2 combined assessments because the current New Zealand public sector framework is primarily IPSAS-based and both tiers share the same recognition and measurement basis.

²⁸ XRB, *PBE Conceptual Framework*, Chapter 2, paragraphs 2.1–2.13 and 2.22–2.27, which identify the primary users of PBE GPFR and describe their accountability and decision-making information needs; and *XRB A1, BC29* and *BC36*, which explain the Tier 1/Tier 2 structure, including the use of disclosure concessions for Tier 2 while retaining the same recognition and measurement requirements as Tier 1.

²⁹ *PBE Conceptual Framework*, paragraphs 2.3–2.6, 2.9 and 2.13, concerning lenders and other resource providers as users of general purpose financial reports. *New Zealand Debt Management, New Zealand Government Securities Funding Strategy*, “investor base”; and *Reserve Bank of New Zealand, Financial Stability Report May 2026*, Chapter 2 “Global fiscal sustainability and implications for financial stability”.

³⁰ *Office of the Auditor-General, Results of council audits in 2025*, including observations on asset valuations, systems and controls, and audit outcomes.

[Appendix 1](#) and [Appendix 2](#) provide context on the international adoption and use of IPSAS Standards, including direct adoption and IPSAS-based approaches with jurisdiction-specific modifications. Broader PBE-level context on the current standards basis and international alignment is addressed in the **PBE sector overview paper**, the **Alignment between IPSAS and IFRS Accounting Standards paper** and the **IPSAS adoption around the world paper**.

48. The IPSAS suite includes public-sector-specific requirements and guidance in areas such as social benefits, public sector combinations, service concession arrangements, revenue and transfer expenses. The suite has continued to develop over time, while IPSASB's 2024–2028 strategy places greater emphasis on maintaining the existing standards and supporting their consistent application over the next few years.³¹

Selected international comparators

49. There is no one single international model for public sector financial reporting. The comparators below are selected to illustrate different standards architectures relevant to the Tier 1 assessment and are not intended to be representative of the relative prevalence of different approaches internationally. Broader international evidence provides useful context: 53 jurisdictions are reporting on a full accrual basis in 2024, 35 used IPSAS either directly, with modifications, or as a reference point in developing national standards, while three used national standards based on IFRS Accounting Standards.³²

Jurisdiction / reference	Broad approach	Relevance to this assessment
New Zealand	Tier 1 public sector PBEs apply PBE Standards that are primarily IPSAS-based supported by some IFRS and domestic requirements.	Current benchmark; combines international public-sector basis with New Zealand PBE requirements.
Australia ³³	Australian Government and State, Territory and Local Governments apply Tier 1 Australian Accounting Standards. The AASB applies a transaction-neutral approach, where public sector accounting requirements are based on IFRS Accounting Standard, with public-sector-specific requirements where needed; AASB 1049 applies to whole-of-government and General Government Sector (GGS) reporting. ³⁴	Key trans-Tasman comparator. This paper assesses only the implications of closer Australian alignment for New Zealand Tier 1 and Tier 2 public sector entities.

³¹ [IPSASB, Standards & Pronouncements](#) (current IPSAS suite and recent standards); [IPSASB, 2024–2028 Strategy and Work Program](#).

³² IFAC, CIPFA and IPSASB, [International Public Sector Financial Accountability Index 2025 Status Report](#), p. 3. Of the 53 jurisdictions reporting on an accrual basis in 2024, 35 (66%) used IPSAS in some form: four used IPSAS without modification, 12 used IPSAS modified for the local context, and 19 used national standards with reference to IPSAS. Three jurisdictions used national standards based on IFRS Accounting Standards. The Index examines the financial reporting frameworks of federal and central governments.

³³ [AASB 1053 Application of Tiers of Australian Accounting Standards](#), paras 11–13; [AASB, Not-for-Profit Entity Standard-Setting Framework \(July 2021\)](#), paras 23–24; [AASB 1049 Whole of Government and General Government Sector Financial Reporting](#).

³⁴ Australian GGS reporting is consolidated reporting for government departments and other government-controlled entities primarily engaged in providing non-market public services or redistributing income and wealth. It excludes public corporations; and also see the separate paper **Reporting requirements in Australia for public sector and private sector not-for-profit entities for the Australian public sector reporting** for architecture and requirements.

United Kingdom – central government ³⁵	Central government financial statements use IFRS as adapted and interpreted for the public sector through HM Treasury’s Government Financial Reporting Manual.	Illustrates an IFRS-based model with structured public-sector adaptations and implementation guidance.
Canada ³⁶	Canadian Public Sector Accounting Standards (PSAS) remain a domestic suite; The Public Sector Accounting Board’s (PSAB) international strategy is to adapt IPSAS principles when developing future standards where an IPSAS exists.	Illustrates a domestic public-sector framework that uses IPSAS as an input rather than direct reporting requirements.
United States ³⁷	Federal governmental entities generally apply domestic federal GAAP established by the Federal Accounting Standards Advisory Board (FASAB). State and local governments that report under GAAP apply standards established by the Governmental Accounting Standards Board (GASB). The United States therefore operates separate domestically developed public sector accounting frameworks rather than adopting IPSAS or IFRS as its public sector reporting basis.	Illustrates a domestic public-sector standard-setting model, including separate frameworks for federal and state/local government, rather than alignment to a single international accounting standards framework.
China ³⁸	Public sector entities apply a national Government Accounting Standards framework developed by its Ministry of Finance. The framework combines accrual-based financial accounting with generally cash-based budget accounting. International standards,	Illustrates a domestically developed public-sector framework that draws on international accounting principles while retaining national requirements and distinct financial and budget reporting objectives.

³⁵ [HM Treasury, Government Financial Reporting Manual 2026–27 \(FReM\)](#), which provides the accounting and financial reporting framework for central government bodies and sets out the adaptations and interpretations applied to IFRS Accounting Standards for the public sector.

³⁶ Public Sector Accounting Board (PSAB), CPA Canada Public Sector Accounting (PSA) Handbook, containing Canadian Public Sector Accounting Standards (PSAS); see also [PSAB international strategy](#) which sets out PSAB’s approach of adapting IPSAS principles when developing future Canadian public-sector standards where an equivalent IPSAS exists.

³⁷ Federal Accounting Standards Advisory Board (FASAB), [Standards & Guidance](#), which identifies the FASAB Handbook as the authoritative source of GAAP developed for federal entities; Governmental Accounting Standards Board (GASB), [About the GASB](#), which states that GASB establishes accounting and financial reporting standards for US state and local governments that follow GAAP; GASB, [Governmental Accounting Research System \(GARS\)](#), containing GASB accounting and financial reporting standards for US state and local governments.

³⁸ International Federation of Accountants (IFAC), [China’s mainland – Adoption of International Standards](#), section on International Public Sector Accounting Standards, which identifies China’s accrual-based national standards framework developed by the Ministry of Finance and assesses IPSAS as partially adopted; Ministry of Finance of the People’s Republic of China, [Government Accounting Standards – Basic Standard](#) (Ministry of Finance Order No. 78), Articles 1, 3 and 4.

	including IPSAS, have informed the development of certain requirements, but IPSAS are not adopted in their entirety.	
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50. The jurisdictions were selected for different reasons. New Zealand provides the current baseline; Australia is the most directly relevant trans-Tasman comparator; the United Kingdom provides an IFRS-based public sector comparator and is also where the IASB is based; Canada provides an IPSAS-referenced domestic public sector framework and has a close institutional connection with IPSASB, whose staff operations are based in Toronto; the United States illustrates domestic public-sector standard setting without alignment to IPSAS or IFRS; and China provides an example of a major economy using a nationally developed government accounting framework informed in part by international standards. The broader international evidence indicates that IPSAS-based or IPSAS-referenced approaches are more prevalent among jurisdictions reporting on a full accrual basis than IFRS-based public sector frameworks.
51. For this assessment, “international alignment” is not a single outcome. Alignment with IPSAS may support comparability with international public sector reporting approaches; alignment with Australia may support trans-Tasman comparability and potentially workforce and systems benefits; and IFRS familiarity may be relevant to some international users and capital-market participants. These considerations do not, by themselves, establish that any particular standards architecture is preferable for New Zealand.
52. For Tier 2, the underlying standards base and the mechanism used to achieve proportionality are separate questions. This paper does not undertake a detailed comparison of Tier 2 proportionality mechanisms across all the jurisdictions listed above. Australia is considered in greater depth because of its particular trans-Tasman relevance. The United Kingdom, Canada, United States and China are included primarily as comparators of standards architecture, rather than as specific Tier 2 models. The Tier 2 assessment considers whether an Australia-aligned approach could provide greater simplification for eligible New Zealand public sector entities while maintaining technical fitness, user usefulness and interoperability with Tier 1.

Practical challenges with the current framework

53. The current Tier 1 and Tier 2 public sector frameworks are established and supported by an existing New Zealand preparer, audit and standard-setting ecosystem. The 2019 Targeted ASF Review of the Accounting Standards Framework found that the framework was generally operating as intended and had not resulted in significant unintended consequences. However, that review was undertaken relatively early in the life of the current framework. The current review therefore considers a number of practical challenges and areas where further evidence is needed, recognising that their significance may differ between Tier 1 and Tier 2. Figure 3 summarises those challenges below.

Figure 3: Key challenges summary



What these challenges mean for this ASF review

- **Complexity of requirements** – Some public sector entities undertake complex transactions, operate within large groups and manage significant specialised assets requiring judgement and valuation expertise. Recent local-government audit evidence indicates the technical demands associated with asset valuations.³⁹ This does not establish that the accounting requirements themselves are unnecessarily complex. For Tier 2, the key question is whether the current disclosure concessions provide proportionate relief where recognition and measurement requirements remain the same as Tier 1.⁴⁰
- **Mixed group reporting** – Public sector groups may include entities applying different sectors or tiers of the ASF, requiring consolidation adjustments or accounting-policy alignment. Changes to the Tier 1 or Tier 2 basis could affect interoperability within groups and movement between tiers. Detailed mixed group issues are considered in the separate **Analysis of mixed group issues paper**.
- **Constrained resources and workforce mobility** – **Capability** and resourcing pressures may differ across entities, but the evidence reviewed does not establish a widespread shortage of specialist PBE, audit or valuation expertise. The review therefore needs to distinguish current capability constraints from potential workforce or retraining implications arising under alternative framework options.
- **Australian comparability** – Current evidence does not establish that differences between the Australian and New Zealand public sector reporting framework create a material comparability problem. The assessment therefore considers whether closer Australian alignment would provide meaningful trans-Tasman, workforce or systems benefits, taking into account the implications for New Zealand’s existing IPSAS-based framework, domestic requirements, interoperability and transition costs.
- **Change fatigue and cost of staying current** – Maintaining the current framework requires ongoing implementation and maintenance as IPSAS develops and New Zealand considers corresponding amendments through domestic due process. This affects systems, controls, reporting processes and audit methodologies. Ongoing maintenance would also arise under alternative frameworks, so the relevant question is the relative scale and nature of that effort under each option.

³⁹ Office of the Auditor-General, *Results of council audits in 2025*, “Asset valuations”: councils’ balance sheets are dominated by the recorded valuation of their assets, and relatively small inaccuracies in key valuation assumptions can result in a material misstatement of the financial statements.

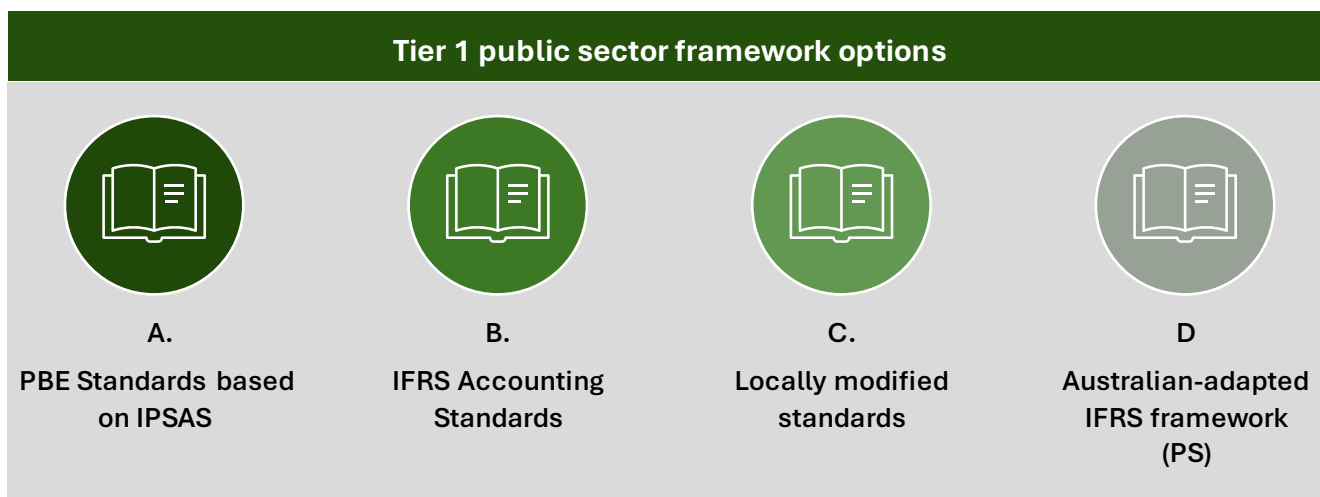
⁴⁰ *XRB A1, paragraph BC36*, supporting the statement that Tier 2 PBEs apply the same recognition and measurement requirements as Tier 1 with disclosure concessions.

- **Accountability and usefulness.** No specific current failure in the accountability or decision-making usefulness of Tier 1 or Tier 2 reporting has been identified. The main evidence gap is how users engage with the reports and, particularly for Tier 2, whether current disclosure concessions retain the information most useful for accountability and decision-making.
54. These matters should be assessed against current evidence for each tier. They do not all represent demonstrated problems with the ASF, and not all could be resolved by changing the reporting framework. Some reflect implementation, systems, valuations, resourcing or statutory matters outside the ASF itself. The assessment therefore distinguishes between demonstrated issues, evidence gaps, consequences of alternative framework options and matters outside the scope of the review.⁴¹

Reporting framework options considered

55. This paper considers the Tier 1 and Tier 2 public sector reporting frameworks together because the two tiers currently share the same recognition and measurement requirements. For Tier 1, the options consider alternative standards frameworks that could provide the basis for full public sector reporting. For Tier 2, the options consider whether proportionality should continue to be achieved through reduced disclosures within the Tier 1 recognition and measurement basis, or through a different reporting framework.
56. Figures 4 and 5 summarise the framework options considered for Tier 1 and Tier 2 public sector reporting.

Figure 4: Tier 1 PS framework options



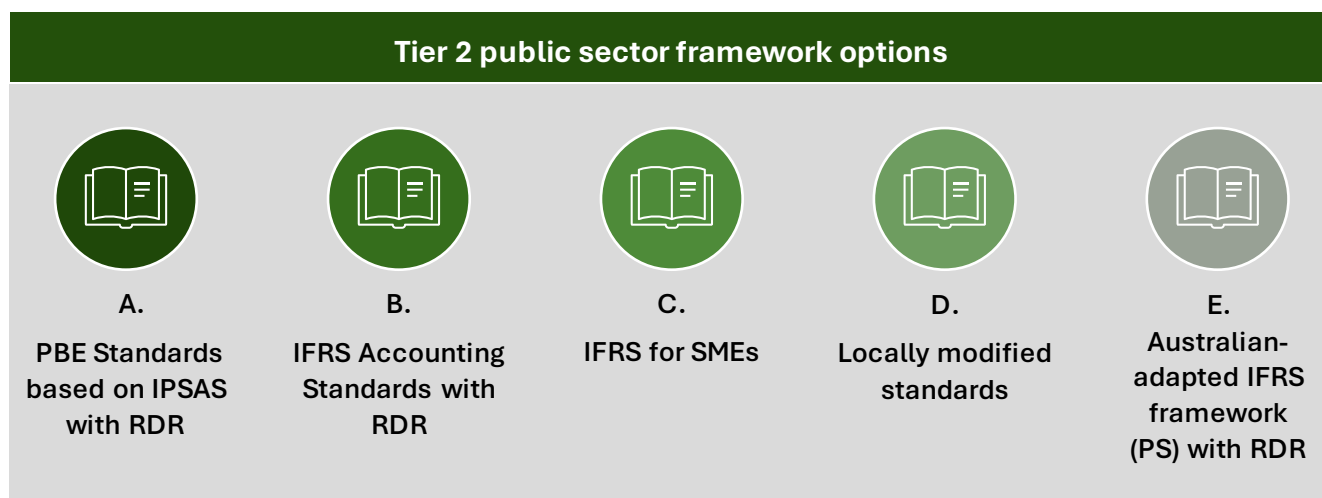
Why these frameworks were selected for Tier 1

57. The Tier 1 options represent the main alternative standards architectures identified through the review. They include:
- **PBE Standards based on IPSAS** – the current framework and therefore the baseline against which alternatives are assessed.
 - **IFRS Accounting Standards** – an internationally recognised standards framework that provides an alternative international basis to IPSAS, although it is developed with for-profit entities in mind.

⁴¹ XRB, [Targeted Review Summary \(2019\)](#) which distinguished review of the ASF from matters such as who is statutorily required to report and the appropriateness of specific accounting requirements in individual standards.

- **Locally modified standards** – an approach based on an established public sector reporting framework from another jurisdiction, adapted to New Zealand’s public sector circumstances.
- **Australian-adapted IFRS framework for the public sector** – an IFRS-based approach incorporating public-sector adaptations, included because of Australia’s particular trans-Tasman relevance.

Figure 5: Tier 2 PS framework options



Why these frameworks were selected for Tier 2

58. The Tier 2 options reflect the principal ways proportionality could be provided under alternative framework architectures. They include:
- **PBE Standards based on IPSAS with RDR** – the current approach, under which Tier 2 shares Tier 1 recognition and measurement requirements but applies reduced disclosures.
 - **IFRS Accounting Standards with RDR** – an approach that would retain common recognition and measurement requirements with an IFRS-based Tier 1 framework while providing disclosure relief for Tier 2.
 - **IFRS for SMEs** – a separate simplified recognition, measurement and disclosure framework set and therefore an alternative to maintaining a common accounting basis with Tier 1.
 - **Locally modified standards** – an approach based on an established public sector reporting framework from another jurisdiction, adapted to New Zealand’s public sector circumstances and to provide an appropriate level of simplification for Tier 2 entities.
 - **Australian-adapted IFRS framework for the public sector with RDR** – an approach that would combine an Australian public sector standards basis (IFRS with public sector adaptations) with reduced disclosures for eligible Tier 2 entities.
59. To avoid duplicating framework-level analysis, the Tier 1 assessment considers the broader implications of each standards framework option. The Tier 2 assessment then considers the implications for eligible Tier 2 entities, including proportionality, interoperability with Tier 1, movement between tiers, group reporting, systems and capability, ongoing costs and transition effort. Movement between tiers is included as an additional Tier 2 consideration because the current framework allows Tier 1 and Tier 2 entities to move between tiers while retaining a common recognition and measurement basis. IFRS for SMEs is a Tier 2 specific alternative and is therefore assessed separately.

Government Finance Statistics Manual

60. The Government Finance Statistics Manual 2014 (GFSM) was considered but has not been included as an alternative general purpose financial reporting framework for Tier 1 and Tier 2 public sector entities. GFSM is a macroeconomic statistical framework designed to support fiscal analysis. Its primary purpose is to provide a conceptual and reporting framework for analysing and evaluating fiscal policy, particularly the performance of the general government sector and broader public sector.⁴² This differs from the purpose of general purpose financial reporting, which is to provide information about a reporting entity that is useful to users for accountability and decision-making purposes.⁴³
61. GFSM also uses concepts, classifications and recognition requirements that differ in important respects from general purpose financial reporting frameworks such as IPSAS Standards. For example:
- **GFSM uses different accounting treatments in some areas.** For example, it distinguishes between transactions and other economic flows, so revaluations and other changes in the value or volume of assets and liabilities are generally reported as other economic flows rather than as transactions affecting the net operating balance. GFSM also generally recognises financial liabilities where there is a corresponding financial claim of another institutional unit, meaning some provisions recognised under accounting standards are not recognised as liabilities in GFS.
 - **GFSM also uses a different presentation and classification structure.** For example, it includes a Statement of Operations and a separate Statement of Other Economic Flows and distinguishes between financial and non-financial assets. These differences reflect its focus on fiscal statistics and macroeconomic analysis.⁴⁴
 - **GFSM also applies a different reporting-unit perspective.** It is designed primarily for compiling fiscal statistics for the general government and public sectors and their subsectors. Individual ministries, departments and agencies are not necessarily treated as separate institutional units under GFSM, whereas general purpose financial reporting may require financial statements for individual reporting entities.⁴⁵
62. Taken together, these differences in purpose, accounting treatment, presentation and reporting-unit perspective mean that GFSM is complementary to, rather than a substitute for, a general purpose financial reporting framework for Tier 1 and Tier 2 public sector entities. GFSM is nevertheless relevant to the assessment because financial reporting and statistical reporting are closely related. The IPSASB seeks to strengthen the linkages between IPSAS Standards and GFSM and reduce unnecessary differences between the two systems. It also maintains an IPSAS Standards–GFSM Alignment Dashboard identifying differences between the frameworks. IPSAS 22 *Disclosure of Financial Information About the General Government Sector* provides requirements for governments that elect to present information about the ‘general government sector’ (a GFSM concept) in their consolidated financial statements, providing a further link between IPSAS-based financial reporting and statistical reporting.⁴⁶ There is also a linkage to

⁴² International Monetary Fund, [Government Finance Statistics Manual 2014](#), paragraphs 1.1–1.2. Paragraph 1.2 states that the primary purpose of GFSM 2014 is to provide a comprehensive conceptual and reporting framework suitable for analysing and evaluating fiscal policy, particularly for the general government and broader public sectors.

⁴³ XRB, [Public Benefit Entities’ Conceptual Framework](#), paragraphs 2.1–2.4. Paragraph 2.1 identifies the objectives of financial reporting as providing information about the entity useful for accountability and decision-making, and paragraphs 2.3–2.4 identify service recipients and resource providers, and their representatives, as the primary users of GFRs.

⁴⁴ International Monetary Fund, [Government Finance Statistics Manual 2014](#), Appendix 6, paragraphs A6.8–A6.10, A6.20–A6.21 and A6.31–A6.37. Appendix 6 also explains the conceptual, recognition, measurement, presentation and terminology differences between GFS and IPSAS in more detail.

⁴⁵ International Monetary Fund, [Government Finance Statistics Manual 2014](#), paragraphs 2.39–2.41 and 2.58–2.59.

⁴⁶ IPSASB, [International Statistical Standards](#), which explains the relationship between IPSAS Standards and international statistical standards and provides the IPSAS Standards–GFSM Alignment Dashboard. See also IPSASB, [Alignment of IPSAS and Government Finance Statistics Reporting Guidelines](#), and [IPSAS 22 Disclosure of Financial Information About the General Government Sector](#).

the GFSM in Australian Accounting Standards. The standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* includes certain GFSM-aligned requirements for the whole-of-government financial statements of the Commonwealth, State and Territory governments in Australia – including limiting some accounting policy choices to be consistent with the GFSM, certain GFSM-aligned presentation requirements, and requirements to disclose reconciliations with GFSM-based information. See the paper on **Reporting requirements in Australia for public sector and private NFP entities**.

Framework coherence considerations

Optionality within Tier 1 and Tier 2

63. Optionality is considered as a potential design feature of the overall framework rather than as a separate reporting framework option. The question is whether Tier 1 or Tier 2 public sector PBEs should be permitted to choose between more than one reporting basis and, if so, in what circumstances. This differs from an entity electing to apply a tier for which it is eligible under XRB A1.
64. Optionality could provide flexibility for entities with particular group-reporting, financing or user circumstances. However, permitting multiple reporting bases within a tier could reduce comparability across public sector entities, complicate whole-of-government and other group consolidations, create additional audit and systems requirements, and increase capability and maintenance demands across the reporting ecosystem.
65. Consistency and accountability are particularly important in government reporting. On balance, the potential benefits of allowing optionality do not outweigh the trade-offs. Accordingly, optionality is not supported for public sector reporting because multiple reporting bases would increase consolidation challenges and reduce comparability across the public sector reporting.

Proportionality within Tier 2

66. Tier 2 currently achieves proportionality through reduced disclosure requirements. A key question for this review is whether a proportionality mechanism remains necessary for the Tier 2 population and, if so, whether the current RDR approach provides meaningful relief in practice.
67. The assessment therefore needs to consider how Tier 2 entities use the available disclosure concessions, whether those concessions materially reduce preparation and audit effort, and whether the remaining disclosures continue to meet users' accountability and decision-making needs. This is distinct from whether the current Tier 2 eligibility criteria and thresholds are appropriate, which is considered in the separate tiers and thresholds paper. The focus here is on the reporting mechanism once an entity is in Tier 2.
68. For central government entities, Tier 2 proportionality also operates alongside Treasury reporting and consolidation requirements. Departments are required to use Crown accounting policies for financial information submitted to the Treasury, meaning that reduced disclosures in an entity's GPFR do not necessarily determine the information required for whole-of-government reporting.⁴⁷ This is a separate consideration from local government, which is not consolidated into the Government reporting entity.
69. Local government operates differently because local authorities are not consolidated into the Government reporting entity. For Tier 2 local government entities, the proportionality question therefore relates more directly to whether RDR reduces the preparation and audit burden of

⁴⁷ [The Treasury, Treasury Instructions 2024](#), sections 2.4 and 4.1, including the requirement to use Crown accounting policies for financial information submitted to the Treasury and the role of common accounting policy parameters in preparing the consolidated Financial Statements of the Government.

GPFR while retaining information needed for accountability to ratepayers, communities and other users.⁴⁸

70. The relevant question is therefore whether the current RDR mechanism provides an appropriate balance between user information needs and reporting burden across the Tier 2 population, recognising that its practical benefits may differ between central and local government entities.

Framework interactions between the Tier 1 and Tier 2

71. The Tier 2 framework cannot be considered independently of Tier 1. Given the shared recognition and measurement basis, it supports movement between tiers, reduces accounting differences within groups and whole-of-government consolidation, and enables shared systems, guidance and capability across the public sector reporting ecosystem.
72. A change to the Tier 1 standards basis would therefore have implications for Tier 2. Retaining a common recognition and measurement basis across both tiers would preserve the current level of interoperability. Alternatively, adopting a separate recognition and measurement framework for Tier 2 could provide greater simplification, but would need to be assessed against the resulting implications for movement between tiers, group reporting, systems, capability, ongoing maintenance and transition.
73. The Tier 1 framework should therefore be assessed first, with the Tier 2 assessment then considering whether proportionality is best achieved through reduced disclosures within the same standards base or through a separate simplified framework. This distinction is particularly relevant to options such as IFRS for SMEs and locally modified standards, where greater simplification may involve departing from the Tier 1 recognition and measurement basis.

Analysis of framework options

74. The analysis applies the framework-level criteria outlined in the **PBE sector overview paper**. Tier 1 and Tier 2 are assessed separately because an option that is appropriate for the full Tier 1 population may not provide sufficient proportionality for Tier 2, while greater Tier 2 simplification may affect interoperability with Tier 1.
75. The Tier 1 assessment considers the broader implications of each standards framework. The Tier 2 assessment applies the same criteria to eligible Tier 2 public sector entities, with additional consideration of proportionality, movement between tiers, group reporting, systems alignment and capability.
76. The summary assessments illustrate the relative strengths and trade-offs identified against the assessment criteria. No fixed weightings have been assigned to individual criteria, and the options are not ranked in order of preference.

Tier 1 public sector reporting framework assessment

Preliminary summary assessment across key criteria

Tier 1 Option	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Ecosystem	Transition costs
A. PBE Standards based on IPSAS							

⁴⁸ [The Treasury. A Guide to the Public Finance Act \(2026 edition\)](#). Chapter 4, “Entities included in the consolidated financial statements of the Government reporting entity”, noting that local authorities are not included in the financial statements of the Government because they are not controlled by the Government.

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

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

Option A: PBE Standards based on IPSAS

Reporting framework overview

77. Under the current framework, Tier 1 public sector PBEs apply PBE Standards that are primarily based on IPSAS Standards. The suite also includes requirements based on IFRS Accounting Standards and domestic requirements for matters not addressed by IPSAS Standards.
78. Retaining the current framework would mean keeping the existing primarily IPSAS-based PBE Standards for Tier 1. This would not prevent targeted improvements, such as enhanced implementation support reflecting the New Zealand context or changes to particular disclosure requirements, where these could address identified concerns without moving to a different reporting framework. Further information on the current PBE Standards framework is provided in the current PBE Standards fact sheet in [Appendix 3](#).

Implications for Tier 1 public sector entities

79. The current framework has a strong public-sector focus. IPSAS Standards are developed for governments and other public sector entities and include requirements addressing public-sector transactions and reporting circumstances. This reflects the rationale for the current PBE framework, under which IPSAS Standards were considered a more appropriate basis for PBE reporting than continuing to use an IFRS-based framework adapted for PBEs, given that IFRS Accounting Standards are developed primarily for capital-market users.⁴⁹ New Zealand can contribute views through the IPSASB standard-setting process and determine through its domestic standard-setting process whether modifications or additional requirements are needed for the New Zealand context.
80. The central and local government evidence discussed above reinforces the need for a framework that can accommodate significant and complex public-sector reporting matters, including revenue and transfer programmes, financial instruments, specialised assets, infrastructure and complex groups. Moving to a different reporting framework would not in itself remove the underlying complexity of these transactions, assets and arrangements.
81. The current framework is already embedded in New Zealand public sector reporting and is supported by an existing preparer, audit and standard-setting ecosystem, together with established systems, guidance and reporting processes. Retaining the current framework would avoid the transition costs and disruption associated with moving to a different framework and preserve the existing recognition and measurement relationship between Tier 1 and Tier 2.

⁴⁹ XRB, [XRB A1 Application of the Accounting Standards Framework, BC34](#), which records the Board's rationale for using IPSAS Standards as the primary basis for PBE Standards, including that IPSAS Standards are developed for users of PBE financial reports whereas IFRS Accounting Standards are primarily developed for capital-market users.

82. Reporting complexity, disclosure volume, specialist capability and ongoing implementation and maintenance have been identified as areas requiring further evidence. The evidence reviewed does not establish that these are significant deficiencies in the current framework or that they arise primarily from the standards basis rather than implementation, systems, valuation, audit or the inherent complexity of particular transactions. Many IPSAS requirements are based on IFRS Accounting Standards, so moving to IFRS would not necessarily remove complexity where the underlying requirements are similar. Further information is provided in the **Alignment between IPSAS and IFRS Accounting Standards paper**.

Overall observations

83. Overall, the current PBE Standards provide an established, internationally credible and public-sector-focused framework, with strong technical-fit, ecosystem and transition characteristics. The key question is whether identified concerns about complexity and ongoing maintenance are sufficient to justify moving from the current framework, including when weighed against potential benefits from closer trans-Tasman alignment.

Option B: IFRS

Reporting framework overview

84. Under this option, IFRS Accounting Standards would become the primary reporting framework for Tier 1 public sector entities without public-sector-specific adaptations. IFRS Accounting Standards are a comprehensive, principles-based framework developed primarily to meet the information needs of investors, lenders and other creditors. This differs from the current PBE Standards, which are primarily IPSAS-based and were developed with broader PBE accountability and user needs in mind. Further information on IFRS Accounting Standards is provided in the IFRS Accounting Standards fact sheet in [Appendix 4](#). For a global IFRS adoption map, refer to **Tier 1 for-profit reporting framework review paper** released in August 2026. The adoption map represents the adoption of the framework within the private/for-profit sector and therefore does not represent adoption of the framework within the public sector reporting of the jurisdictions.

Implications for Tier 1 public sector entities

85. IFRS would provide a globally recognised reporting framework supported by extensive guidance, implementation material and a large international professional and systems ecosystem. New Zealand also has an established IFRS reporting ecosystem through the for-profit sector. This could support workforce and systems transferability and increase recognisability for users familiar with IFRS-based reporting.
86. However, IFRS Accounting Standards are not developed specifically for public-sector reporting objectives or the full range of public-sector transactions and accountability relationships. Applying IFRS without public-sector adaptations could therefore make it more difficult to address some public-sector-specific reporting matters within the accounting framework. Although this option assesses IFRS without public-sector-specific adaptations so that it remains distinct from the other framework options, in practice the XRB would need to consider whether PBE or public-sector modifications or additional requirements were necessary to address New Zealand reporting needs. This would require domestic standard-setting judgement, without relying on an international standard setter specifically considering those public-sector matters, and any modifications would need to be considered alongside IFRS licensing arrangements. Moving to IFRS would also represent a significant change from the current primarily IPSAS-based framework, with implications for accounting policies, systems, training, audit approaches and wider reporting processes. Further information on the relationship between IFRS Accounting Standards and IPSAS Standards is provided in the separate **Alignment between IPSAS and IFRS Accounting Standards paper**.

87. As explained in the separate paper **Reporting requirements in Australia for public sector and private sector not-for-profit entities**, applying IFRS without public-sector adaptations would not replicate the Australian public-sector reporting model. This distinction is important when considering whether closer alignment with IFRS would also provide closer alignment with Australia. A change to the Tier 1 standards basis would also affect the current coherence between Tier 1 and Tier 2, given that both tiers presently share the same recognition and measurement requirements. Those interactions are considered further in the Tier 2 assessment.

Overall observations

88. Overall, IFRS provides strong international recognition and ecosystem benefits, but applying it without public-sector adaptations presents significant trade-offs for Tier 1 public sector reporting. In particular, the option performs less strongly against technical fitness and local relevance because IFRS is designed primarily for for-profit and capital-market reporting rather than public-sector accountability objectives. It also does not clearly provide a simplification benefit for public sector entities, given the continued complexity of IFRS recognition and measurement requirements and licensing constraints that may limit selective simplification or adaptation. These considerations would need to be weighed against the potential ecosystem and familiarity benefits of IFRS and the transition implications of moving from the current framework.

Option C: Locally modified standards

Reporting framework overview

89. Under this option, New Zealand would move to a more domestically controlled Tier 1 public sector framework rather than retaining IPSAS Standards as the primary basis for the PBE Standards. The framework would be based on an established public sector reporting framework from another jurisdiction and modified or supplemented to reflect New Zealand public sector transactions, user needs, regulatory settings and reporting circumstances. Further information on this option is provided in the Locally Modified Standards fact sheet in [Appendix 6](#).

Implications for Tier 1 public sector entities

90. A key potential benefit is greater local relevance and flexibility to tailor requirements to the New Zealand public sector. The framework could respond more directly to New Zealand-specific transactions, accountability arrangements and policy settings. It could also provide greater scope for targeted simplification where existing requirements are unnecessarily complex or less relevant to the Tier 1 population, while retaining requirements needed for larger and more complex public sector entities.
91. Greater domestic control would also bring greater responsibility for developing, modifying and maintaining the framework. The XRB would need to maintain a coherent and technically robust suite capable of addressing complex public sector transactions, including specialised assets, transfers, group reporting and other matters arising in the New Zealand public sector. Although using an established source framework would reduce the need to develop requirements from first principles, the XRB would remain responsible for assessing, adapting, consulting on and maintaining the New Zealand requirements over time. Further detail on the possible development approach and associated XRB resourcing, capability and delivery implications is provided in the separate paper **Possible approach to the development of locally modified standards**.
92. The effect on international alignment and comparability would depend on the source framework and the extent of New Zealand modification. Greater domestic tailoring could reduce direct alignment with IPSAS or another internationally recognised framework and make New Zealand

financial statements less readily comparable with those prepared in other jurisdictions. The effect on trans-Tasman alignment would similarly depend on whether the resulting requirements were consistent with, or different from, the applicable Australian requirements.

93. Transitioning to a locally modified framework would require changes to accounting policies, systems, reporting templates, guidance, education and audit methodologies. Preparers, auditors, advisers and standard-setting staff would need to develop and maintain capability in the new framework. Reduced alignment with established international frameworks could also limit the use of international guidance, training and software and reduce workforce mobility. A different Tier 1 recognition and measurement basis would also affect the current coherence between Tier 1 and Tier 2, which is considered further in the Tier 2 assessment.

Overall observations

94. Overall, a locally modified framework could provide greater domestic control, local relevance and scope for targeted simplification, but would increase New Zealand's responsibility for developing and maintaining the framework and involve transition and international-alignment implications. The key trade-off is between greater ability to tailor requirements to New Zealand public sector circumstances and the benefits of alignment with an established international public sector framework. The extent of that trade-off would depend on the source framework and degree of New Zealand modification.

Option D: Australian-adapted IFRS framework (PS)

Reporting framework overview

95. Under this option, New Zealand would move towards an Australia-aligned public sector reporting model. Australia applies a single IFRS-based suite of Australian Accounting Standards across sectors, with not-for-profit and public-sector-specific requirements where needed. The separate paper **Reporting requirements in Australia for public sector and private sector not-for-profit entities** provides further information on the Australian framework and the public-sector requirements within it. Further information on this option is also provided in the Australia-aligned Public Sector Standards fact sheet in [Appendix 5](#).

Implications for Tier 1 public sector entities

96. The main potential benefit is stronger trans-Tasman alignment and comparability. A closely aligned framework could increase the transferability of professional capability, systems, guidance and implementation experience between New Zealand and Australia, depending on the extent of alignment achieved. It would also retain a strong connection to the wider IFRS reporting ecosystem.
97. An Australia-aligned approach would still need to be assessed against New Zealand-specific user needs, reporting circumstances and accountability requirements. Decisions would be required about which Australian public-sector requirements should be adopted, adapted or replaced with New Zealand-specific requirements. Closer alignment with Australia would therefore not remove the need for domestic standard-setting judgement. This is consistent with the separate Australia paper, which notes that New Zealand-specific modifications may still be required under an Australia-aligned approach.
98. Moving to an Australia-aligned framework would involve significant transition from the current primarily IPSAS-based PBE Standards, with likely implications for accounting policies, systems, training, audit approaches and wider reporting processes. A different Tier 1 recognition and measurement basis would also affect the current coherence between Tier 1 and Tier 2, which is considered further in the Tier 2 assessment. Ongoing maintenance would require New Zealand to monitor relevant Australian and IFRS developments together with any New Zealand-specific requirements. Licensing and other legal implications associated with the IFRS-based source

material would also need to be considered as part of any further feasibility assessment, including whether they constrain the extent to which requirements could be simplified or adapted.

Overall observations

99. Overall, an Australia-aligned approach could provide closer trans-Tasman comparability and potentially greater transferability of capability, systems and implementation experience, while retaining an IFRS-based accounting framework with Australian public-sector adaptations. These potential benefits have not yet been established as material for New Zealand public sector reporting and would need to be weighed against transition costs, the continuing need for New Zealand-specific requirements, licensing constraints and the implications of moving away from the current primarily IPSAS-based framework.

Tier 2 public sector reporting framework assessment

100. The Tier 2 assessment starts from the current relationship with Tier 1, under which both tiers apply the same recognition and measurement requirements and Tier 2 achieves proportionality through reduced disclosures. The assessment therefore considers whether the current RDR approach remains proportionate for eligible public sector entities or whether an alternative approach would provide sufficient benefits to justify change. The assessment should therefore be read alongside the analysis of user and accountability needs in paragraphs 39–43. At this stage, staff have not identified sufficient evidence to conclude either that the current disclosure concessions are working effectively or that they are not working effectively.
101. The relationship between the Tier 1 and Tier 2 standards basis is also relevant to the assessment. A common recognition and measurement basis supports movement between tiers, group reporting, consolidation, systems alignment and shared capability. Conversely, applying different recognition and measurement frameworks across the two tiers would reduce the interoperability that exists under the current framework. These considerations are assessed as characteristics of each Tier 2 option rather than by modelling particular combinations of Tier 1 and Tier 2 frameworks.

Evidence on the use of RDR

102. The availability of a disclosure concession does not indicate how frequently it is used or the extent to which it reduces preparation and audit effort in practice. Staff have not identified an authoritative dataset or established sufficient evidence on which RDR concessions Tier 2 public sector entities use, how frequently they use them, whether entities voluntarily provide disclosures they are permitted to omit, or the extent to which Tier 2 reporting effort arises from disclosure requirements rather than recognition and measurement, valuation, systems or audit requirements.
103. This remains an evidence gap for the Tier 2 proportionality assessment. The assessment therefore needs to consider both whether RDR concessions provide meaningful relief to preparers and whether the remaining disclosures continue to provide information useful for the accountability and decision-making needs of users of Tier 2 public sector GPFs. This evidence gap will be addressed through entity-level evidence and targeted outreach, with any remaining gaps tested through the ASF public discussion paper.

Preliminary summary assessment across key criteria

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

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

Option A: PBE Standards based on IPSAS with RDR

Reporting framework overview

104. Under the current framework, Tier 2 public sector PBEs apply the same recognition and measurement requirements as Tier 1, with reduced disclosures. This maintains a common accounting basis across the two tiers while providing proportionality through disclosure concessions rather than a separate recognition and measurement framework. Further information on the current PBE Standards RDR is provided in the current PBE Standards fact sheet in [Appendix 3](#).

Implications for Tier 2 public sector entities

105. Retaining the current Tier 2 framework supports movement between Tier 1 and Tier 2 without requiring a change in recognition and measurement requirements, uses the existing PBE reporting ecosystem and avoids the transition costs associated with moving to a different framework. A common recognition and measurement basis can also reduce accounting differences for group reporting and consolidation. The XRB also retains the ability to determine appropriate disclosure concessions for New Zealand Tier 2 PBEs.
106. The key question is whether disclosure-only relief addresses the main sources of cost and complexity for the Tier 2 population. Tier 2 entities continue to apply the same recognition and measurement requirements as Tier 1, which can still involve significant judgement, valuation, systems and audit requirements even where disclosures are reduced.

Overall observations

107. Overall, the current PBE Standards RDR preserves a common recognition and measurement basis across Tier 1 and Tier 2, supports movement between tiers and retains the existing public-sector reporting ecosystem and public-sector focus of the underlying PBE Standards. A potential limitation is that proportionality is achieved through disclosure concessions while Tier 2 entities continue to apply Tier 1 recognition and measurement requirements. The key trade-off is therefore between framework coherence and the extent of simplification provided to Tier 2 entities.

Option B: IFRS with RDR

Reporting framework overview

108. The broader implications of moving from the current PBE Standards to an IFRS-based framework are considered under Tier 1 Option B. For Tier 2, this option would apply IFRS recognition and measurement requirements with reduced disclosures. This would provide a disclosure-based proportionality mechanism while retaining the full IFRS recognition and measurement requirements. Although this would move New Zealand closer to the IFRS-based foundation of the Australian framework, it would not by itself replicate the Australian approach, which includes Australian public-sector and not-for-profit requirements. IFRS is designed primarily for for-profit reporting, and existing IFRS licensing arrangements may affect the extent to which its requirements could be selectively simplified or adapted for Tier 2 public sector entities. Further information on IFRS with RDR is provided within the IFRS fact sheet in [Appendix 4](#).

Implications for Tier 2 public sector entities

109. Reduced disclosures would provide proportionality in relation to the volume and detail of information presented, but Tier 2 entities would still apply IFRS recognition and measurement requirements. The option therefore carries forward the public-sector technical-fitness considerations identified in the Tier 1 assessment for the IFRS framework. Its interoperability with Tier 1 would depend on whether the two tiers ultimately share a common recognition and measurement basis; where different bases are applied, there would be implications for movement between tiers, group reporting, systems, capability and the wider reporting ecosystem.

Overall observations

110. Overall, IFRS with RDR would provide disclosure-based proportionality while retaining full IFRS recognition and measurement requirements. The key considerations are whether this provides sufficient simplification for Tier 2 public sector entities, the public-sector technical fit of the underlying IFRS requirements, and the extent to which the option maintains interoperability with Tier 1 and the wider reporting ecosystem.

Option C: IFRS for SMEs

Reporting framework overview

111. The IFRS for SMEs Accounting Standard is a separate, self-contained accounting standard developed by the IASB for entities without public accountability that prepare general purpose financial statements. The term “SMEs” does not depend on a quantitative size threshold. Each jurisdiction determines which entities may apply the Standard, subject to the IASB’s restriction that entities with public accountability may not use it. Compared with full IFRS Accounting Standards, IFRS for SMEs omits some topics, removes some accounting policy options, simplifies a number of recognition and measurement requirements and requires substantially fewer disclosures. The third edition was issued in February 2025 and is effective for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. Further information on the IFRS for SMEs Accounting Standard is provided in the IFRS for SMEs fact sheet in [Appendix 7](#). For a global IFRS for SMEs adoption map, refer to **Tier 2 for-profit reporting framework review paper** released in August 2026. The adoption map represents the adoption of the framework within the private/for-profit sector and therefore does not represent adoption of the framework within the public sector reporting of the jurisdictions.

Implications for Tier 2 public sector entities

112. IFRS for SMEs would provide broader proportionality than the current PBE Standards RDR because its simplifications extend beyond disclosures to recognition and measurement requirements. This could reduce judgement, application effort and implementation burden for some Tier 2 entities, particularly those with less complex activities and transactions. Revisions are expected to be limited to once every three years, which could also reduce the frequency of ongoing accounting changes. IFRS for SMEs has international recognition, being required or permitted in 85 jurisdictions.⁵⁰
113. However, IFRS for SMEs was not developed as a public-sector reporting framework and does not provide the same coverage of public-sector transactions, accountability relationships and service performance information as the current PBE Standards. Its omitted topics and simplified requirements may have different implications for larger or more complex Tier 2 public sector entities, depending on their activities and transactions. Applying it as a New Zealand Tier 2 public sector reporting framework may therefore require additional public-sector-specific requirements, supplements or implementation material. This could reduce some of the simplicity of using a self-contained standard and create additional ongoing maintenance requirements in New Zealand. It would also not replicate the Australian Tier 2 public sector approach. Eligible Australian Tier 2 public sector entities apply the recognition and measurement requirements of Australian Accounting Standards, including relevant public-sector and not-for-profit requirements, together with simplified disclosures under AASB 1060.
114. IFRS for SMEs is protected by IFRS Foundation's licensing requirements. Reproducing, adapting or incorporating its requirements into New Zealand standards and supporting materials would be subject to the applicable licensing arrangements. New Zealand-specific departures could also affect whether financial statements could state compliance with IFRS for SMEs because that statement is available only where all the requirements of the Standard are met.⁵¹
115. IFRS for SMEs has its own simplified recognition and measurement requirements and would therefore introduce a separate accounting basis from the Tier 1 frameworks under consideration. This would reduce interoperability between the tiers, make movement between them more complex and create additional accounting differences for mixed-tier groups and consolidation.
116. Adoption would also require changes to accounting policies, reporting templates, systems, guidance, education and audit methodologies. Preparers, auditors, advisers and standard-setting staff would need to develop capability in a framework that is not currently part of the New Zealand reporting environment. Supporting a separate Tier 2 recognition and measurement basis would also have implications for training, workforce capability and the resources required across the reporting ecosystem.

Overall observations

117. Overall, IFRS for SMEs would provide greater simplification than the current disclosure-only approach and has the benefit of being a self-contained and internationally recognised framework. However, it was not developed specifically for public sector reporting and would introduce a separate recognition and measurement basis from Tier 1. It would also not align New Zealand with the Australian Tier 2 public sector approach, which retains Tier 1 recognition

⁵⁰ IFRS Foundation, [The IFRS for SMEs Accounting Standard](#), "About"; IFRS Foundation, [2025 IFRS for SMEs supporting materials](#); and IASB, [IASB issues a major update to the IFRS for SMEs Accounting Standard \(27 February 2025\)](#).

⁵¹ IFRS Foundation, [Licensing of IFRS Standards for adoption and jurisdictional use](#), which explains that reproduction, adaptation, translation or distribution of IFRS Foundation material for local adoption may require an appropriate licence; and IFRS Foundation, [IFRS for SMEs Accounting Standard Third Edition with changes marked up \(2025\)](#), paragraph 3.3, p. 31 compliance with standards may only be stated where all Standards have been met.

and measurement requirements with simplified disclosures. The key trade-off is therefore between greater Tier 2 simplification and the implications for public-sector technical fit, interoperability with Tier 1, transition and the wider reporting ecosystem. Licensing and ongoing maintenance would also need to be considered.

Option D: Locally modified standards

Reporting framework overview

118. The broader implications of moving to a locally modified public sector framework are considered under Tier 1 Option C. For Tier 2, the option considers whether domestically developed or modified requirements could provide greater proportionality and local relevance than the current disclosure-only approach. Further information is provided in the Locally Modified Standards fact sheet in [Appendix 6](#), and the separate paper **Possible approach to the development of locally modified standards**.

Implications for Tier 2 public sector entities

119. A locally modified framework would provide greater flexibility to tailor recognition, measurement, presentation and disclosure requirements to the circumstances of eligible New Zealand public sector entities. Simplification would not need to be limited to disclosures and could address aspects of recognition, measurement or presentation that are considered disproportionately complex for the Tier 2 population. The potential for greater simplification and local relevance is a reason for including a locally modified framework as a Tier 2 option.
120. If Tier 1 remained on the current primarily IPSAS-based PBE Standards, introducing a separate locally modified framework for Tier 2 would create a different recognition and measurement basis between the tiers. This would reduce interoperability and comparability, make movement between the tiers more complex and create additional accounting differences for mixed-tier groups and whole-of-government consolidation. It would also require separate systems, reporting templates, guidance, training and reconciliation processes.
121. If Tier 1 also moved to a locally modified framework, a common recognition and measurement basis could be retained, with proportionate Tier 2 requirements incorporated within the same framework. This would preserve greater coherence and movement between the tiers while allowing broader Tier 2 simplification. However, the development, international-alignment, transition, resourcing and ongoing maintenance implications identified under Tier 1 Option C would continue to apply.

Overall observations

122. Overall, a locally modified framework would provide greater scope for Tier 2 simplification and local relevance than the current disclosure-only approach. If Tier 1 remained on the current PBE Standards, adopting a separate locally modified Tier 2 framework would create a different recognition and measurement basis between the tiers, with implications for ASF coherence, interoperability, movement between tiers, group reporting, transition and ongoing maintenance. If Tier 1 also moved to a locally modified framework, proportionality could be incorporated within a common accounting basis, although the broader development, transition, international-alignment and maintenance implications of a locally modified framework would remain. The option therefore presents a trade-off between greater Tier 2 tailoring and simplification, and maintaining a common accounting basis, interoperability and comparability across the two tiers.

Option E: Australian-adapted IFRS framework (PS) with RDR

Reporting framework overview

123. The broader implications of an Australia-aligned public sector framework are considered under Tier 1 Option D. For Tier 2, this option would apply an Australia-aligned recognition and measurement framework together with reduced disclosures. The separate paper **Reporting requirements in Australia for public sector and private sector not-for-profit entities** provides further information on the Australian Tier 1 and Tier 2 requirements, including relevant public-sector-specific requirements. Further information is also provided in the Australia-aligned Public Sector Standards fact sheet in [Appendix 5](#).

Implications for Tier 2 public sector entities

124. An Australia-aligned Tier 2 framework could support closer trans-Tasman comparability and potentially greater transferability of professional capability, systems, guidance and implementation experience. It would also draw on an IFRS-based framework that includes Australian public-sector adaptations.
125. The Australian Tier 2 model generally retains the same recognition and measurement requirements as Tier 1, including relevant public-sector and not-for-profit requirements, while providing simplified disclosures through AASB 1060. The principal difference from the current New Zealand Tier 2 approach would therefore be the underlying standards base rather than a fundamentally different proportionality mechanism.
126. The extent of interoperability with Tier 1 would depend on whether the two tiers ultimately share a common recognition and measurement basis. Where different bases are applied, there would be implications for movement between tiers, group reporting, systems, capability and consolidation. Moving to an Australia-aligned framework would also involve transition, licensing and ongoing maintenance implications for the wider reporting ecosystem.

Overall observations

127. Overall, an Australia-aligned Tier 2 framework could provide closer trans-Tasman alignment while retaining a reduced-disclosure proportionality mechanism broadly similar in structure to the current New Zealand approach. The key trade-offs relate to the practical benefits of closer Australian alignment compared with the transition, interoperability, licensing, maintenance and ecosystem implications of changing the underlying standards base.

Summary observations and framework options for consultation

128. Taken together, the assessment highlights the interrelationship between the Tier 1 and Tier 2 framework decisions. The Tier 1 standards basis has implications for Tier 2 because the current framework uses a common recognition and measurement basis, while the extent of simplification required for Tier 2 also needs to be considered separately.
129. For Tier 1, the options considered present different benefits and trade-offs across technical fitness, local relevance, international alignment, transition, ecosystem and ongoing maintenance. The current PBE Standards provide an established public-sector-focused framework, while the alternative options offer different potential benefits, including closer trans-Tasman alignment, greater international familiarity or greater domestic tailoring.
130. The assessment also indicates that not all current reporting challenges necessarily arise from the reporting framework. Some pressures, including those associated with complex transactions and asset valuations, may arise from the underlying activities, systems, data, valuation processes or audit environment. Where this is the case, targeted improvements or implementation support may be more effective than changing the reporting framework.

131. For Tier 2, other options may provide different degrees or forms of simplification, with corresponding implications for technical fit, interoperability, transition and the wider reporting ecosystem. A key question is whether the current RDR mechanism provides appropriate proportionality for eligible Tier 2 public sector entities and whether it is useful.
132. All of the Tier 1 and Tier 2 framework options assessed in this paper will be taken forward to the public discussion paper. Consultation will seek views on the relative benefits and trade-offs of each option, the appropriate degree of proportionality for Tier 2, the significance of trans-Tasman and international alignment, and whether identified reporting challenges are best addressed through changes to the framework or through more targeted improvements.

Extract of public discussion paper

133. We propose including the following [blue extract](#) in the public discussion paper to summarise the linked Tier 1 and Tier 2 public sector framework analysis and test the proposed direction with stakeholders. The Tier 1 and Tier 2 summary assessments shown in the main analysis can be adapted as supporting discussion paper illustrations.
134. The extract presents the shared public sector framework context once, then separates the Tier 1 standards-basis question from the Tier 2 proportionality question. It also summarises the principal alternative frameworks considered without repeating this detailed paper analysis.
135. The proposed text may be refined during final drafting of the discussion paper to ensure overall coherence and flow.

Background for Tier 1 and Tier 2 public sector reporting

New Zealand previously applied a largely sector-neutral accounting framework based on International Financial Reporting Standards (IFRS) Accounting Standards, with adaptations for public benefit entities (PBEs). The current multi-standards framework subsequently adopted IPSAS Standards as the primary basis for PBE Standards because they were considered better suited to the transactions, users and accountability objectives of PBEs, particularly in the public sector. The Accounting Standards Framework (ASF) was subject to a targeted review in 2019. The current review provides an opportunity to revisit the underlying framework more broadly, including whether the original reasons for adopting an IPSAS-based approach remain appropriate and whether alternative frameworks could better address current or emerging reporting needs.

The review considers whether the current primarily IPSAS-based PBE Standards remain an appropriate reporting framework for Tier 1 public sector entities and what framework would provide an appropriate level of reporting and proportionality for Tier 2 public sector entities.

Tier 1 includes public sector PBEs that have public accountability, are 'large', or otherwise report in Tier 1 under XRB A1. Examples include many central government entities, larger local authorities and other large public sector PBEs. Tier 2 is available to eligible PBEs without public accountability that are not 'large' and includes smaller public sector entities. It also currently includes many schools because the Ministry of Education's prescribed reporting framework requires schools below Tier 1 to apply Tier 2 PBE Standards, including schools that would otherwise be eligible to elect Tier 3 under XRB A1. Tier 1 currently applies the full PBE Standards, while Tier 2 applies the same recognition and measurement requirements with reduced disclosures through PBE Standards RDR.

Users of public sector general purpose financial reporting are service recipients and resource providers, and their representatives, who rely on this reporting for accountability and decision-making. Resource providers may include taxpayers, ratepayers, grantors, funders and lenders, while service recipients include people who receive public services; elected representatives may act on behalf of these groups. The reporting framework therefore needs to support a diverse range of

entities, transactions and user needs while remaining proportionate to the circumstances of the entities applying it.

The wider public sector reporting environment is significant and asset-intensive. The 2025 Financial Statements of the Government reported approximately \$598 billion of total assets and \$183.5 billion of total expenses. Separately, local government owns and operates a material share of New Zealand's infrastructure assets. These figures are not measures of the Tier 1 reporting population, but illustrate the scale, diversity and types of transactions that public sector financial reporting frameworks may need to accommodate.

What the assessment is telling us

The current PBE Standards are primarily based on IPSAS Standards and include requirements developed for public sector transactions, users and accountability relationships that can differ from those in the for-profit sector. They are supported by an established New Zealand reporting ecosystem and include New Zealand-specific requirements where needed.

The review has also identified matters that warrant further testing with stakeholders, including reporting complexity, capability and implementation effort, mixed-group interoperability, trans-Tasman comparability, proportionality for Tier 2 and whether financial reporting continues to provide information that meets user and accountability needs. Not all of these matters necessarily arise from the standards framework itself; some may instead reflect the complexity of transactions, systems and data, valuation processes, audit requirements or implementation.

For Tier 1, the review considers four framework options:

- PBE Standards based on IPSAS;
- IFRS Accounting Standards;
- Locally modified public sector standards; and
- An Australia-adapted IFRS framework (PS).

Each option offers different benefits and trade-offs across public sector technical fit, local relevance, international and trans-Tasman alignment, transition, ecosystem and ongoing maintenance. We are seeking stakeholder feedback on all four options as part of this discussion paper.

For Tier 2, the review considers five framework options:

- PBE Standards based on IPSAS with RDR;
- IFRS Accounting Standards with reduced disclosures;
- IFRS for SMEs;
- locally modified standards; and
- an Australia-adapted IFRS framework (PS) with reduced disclosures.

These options provide different approaches to proportionality. Some retain a common recognition and measurement basis with Tier 1 and achieve simplification mainly through disclosures, while others could provide broader simplification through different recognition and measurement requirements. We are seeking stakeholder feedback on all five options as part of this discussion paper.

How the Tier 1 and Tier 2 decisions interact

The Tier 1 and Tier 2 framework decisions are related. The current framework uses the same recognition and measurement requirements across both tiers, which supports movement between tiers, group reporting and consolidation, shared systems and guidance, and common accounting capability.

A Tier 2 framework with different recognition and measurement requirements could provide greater simplification but would reduce the interoperability that exists under the current framework and could introduce additional differences for movement between tiers, group reporting, systems, training and consolidation.

The review therefore considers both the degree of proportionality provided by each Tier 2 option and the implications for coherence and interoperability with Tier 1, without assuming a particular combination of Tier 1 and Tier 2 frameworks.

Central and local government, financing and capital markets

The public sector considered in this review includes both central and local government. Their activities, accountability arrangements and financing environments differ. The Crown accesses significant domestic and international sovereign debt markets, while some local authorities access capital markets directly or obtain funding through the Local Government Funding Agency.

This means international credibility and understandability may be relevant considerations for some public sector entities and users. However, these considerations need to be assessed alongside broader public sector accountability and reporting needs and do not, by themselves, indicate that any particular accounting framework should be preferred.

Questions for stakeholders

Questions applying to both Tier 1 and Tier 2

- 1. What are the most significant financial reporting challenges currently experienced by Tier 1 and Tier 2 public sector entities? To what extent do these arise from the reporting framework itself, individual accounting requirements, or implementation matters such as systems, data, valuation, capability or audit?**
- 2. How important is coherence and interoperability between Tier 1 and Tier 2, including for movement between tiers, group reporting and consolidation, systems, audit and workforce capability?**
- 3. How important are international and trans-Tasman comparability when assessing the public sector reporting framework? What practical benefits or costs arise from closer alignment with Australia?**

Tier 1 questions

- 4. Which of the Tier 1 framework options do you consider most appropriate for New Zealand public sector reporting, and why?**
 - current primarily IPSAS-based PBE Standards;
 - IFRS Accounting Standards;
 - locally modified public sector standards; or
 - an Australia-aligned public sector framework.
- 5. For capital providers and other international users, how important is the accounting framework used by New Zealand public sector entities when understanding, comparing or assessing their financial reports?**

Tier 2 questions

- 6. Which of the Tier 2 framework options do you consider most appropriate for eligible New Zealand public sector entities, and why?**
 - current PBE Standards RDR;
 - IFRS with reduced disclosures;
 - IFRS for SMEs;
 - locally modified standards; or
 - an Australia-aligned public sector framework with reduced disclosures.

7. Do the current Tier 2 RDR concessions provide an appropriate level of proportionality? Which concessions do you use, and which provide the greatest reduction in preparation or audit effort? Are there disclosures you provide voluntarily even though Tier 2 permits them to be omitted?
8. What are the principal drivers of Tier 2 financial reporting effort — disclosures, recognition and measurement, valuation, systems, audit or other requirements?
9. Do the information needs of users of Tier 2 public sector PBE reporting differ from those of Tier 1 users? If so, what are those differences and what implications should they have for Tier 2 reporting requirements?

Questions for the Board

Questions for the Board

- Q1.** Does the Board have any **FEEDBACK** on whether the analysis of the Tier 1 and Tier 2 public sector reporting frameworks is balanced and sufficiently complete, including the key benefits, trade-offs and evidence gaps identified?
- Q2.** Does the Board have any **FEEDBACK** on the framework options proposed to be taken forward to the public discussion paper for Tier 1 and Tier 2, including how proportionality and the interaction between the two tiers have been considered?
- Q3.** Does the Board have any **FEEDBACK** on the proposed discussion paper framing and stakeholder questions outlined in [blue text](#), including whether they are likely to elicit useful evidence on current reporting challenges, Tier 2 proportionality, user needs and the practical significance of closer Australian alignment?

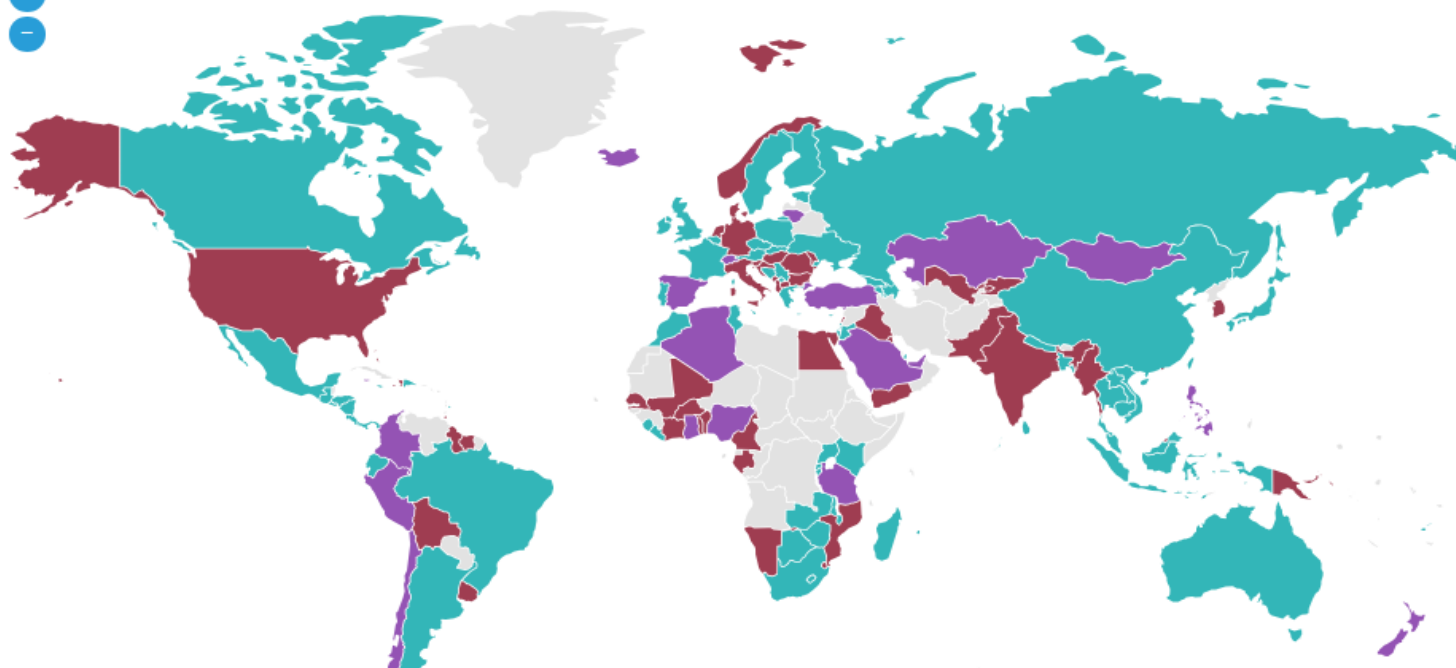
Appendix contents

The appendices provide supporting material for the analysis in the main paper and are for the Board's consideration. Appendices 3, 4, 5, 6 and 7 (in [blue text](#)) are proposed to form part of the public discussion paper, subject to Board feedback. The table below summarises the purpose of each appendix.

Appendix	Title	What it contains	Proposed inclusion in public discussion paper
<u>Appendix 1</u>	IPSAS international adoption	Provides international context on jurisdictions that have adopted IPSAS Standards.	Board paper only
<u>Appendix 2</u>	IPSAS international adoption with modifications	Provides international context on jurisdictions that use IPSAS-based approaches with local modifications.	Board paper only
<u>Appendix 3</u>	IPSAS factsheet	Provides supporting information on the IPSAS framework, including its reduced disclosure context.	Include in Discussion Paper
<u>Appendix 4</u>	IFRS factsheet	Provides supporting information on IFRS Accounting Standards as an alternative framework reporting basis, including its reduced disclosure context.	Include in Discussion Paper
<u>Appendix 5</u>	Australian Accounting Standards factsheet	Provides supporting information on Australian Accounting Standards, including, reduced disclosure context – an IFRS-based framework with public-sector and not-for-profit adaptations.	Include in Discussion Paper
<u>Appendix 6</u>	Locally modified standards – indicative approach	Provides supporting information on a locally modified public sector standards approach and the indicative development process, including possible modification criteria and implementation considerations.	Include in Discussion Paper
<u>Appendix 7</u>	IFRS for SMEs factsheet	Provides supporting information on the IFRS for SMEs Accounting Standard, including its scope, simplified recognition and measurement requirements, reduced disclosures and potential application to Tier 2 public sector entities.	Include in Discussion Paper

<u>Appendix 8</u>	Tier 1 and 2 public sector overview and framework options analysis	Provides an overview of the paper, alongside the detailed framework analysis across Tier 1 and Tier 2.	Board paper only
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Appendix 1 – IPSAS international adoption⁵²



International Public Sector Accounting Standards

■ Adopted
 ■ Partially Adopted
 ■ Not Adopted
■ Jurisdictions without an IFAC member organization

Methodology for Assessing Adoption:^{*}

Adopted – Accrual-basis IPSAS with no modifications or accrual-basis IPSAS modified for local context have been adopted for application by all public sector entities.

Partially Adopted – Accrual-basis national standards with reference to IPSAS OR accrual-basis national standards have been adopted.

or

Partial-accrual basis IPSAS modified for local context OR Partial-accrual IPSAS with no modifications OR Partial-accrual national standards with reference to IPSAS have been adopted.

or

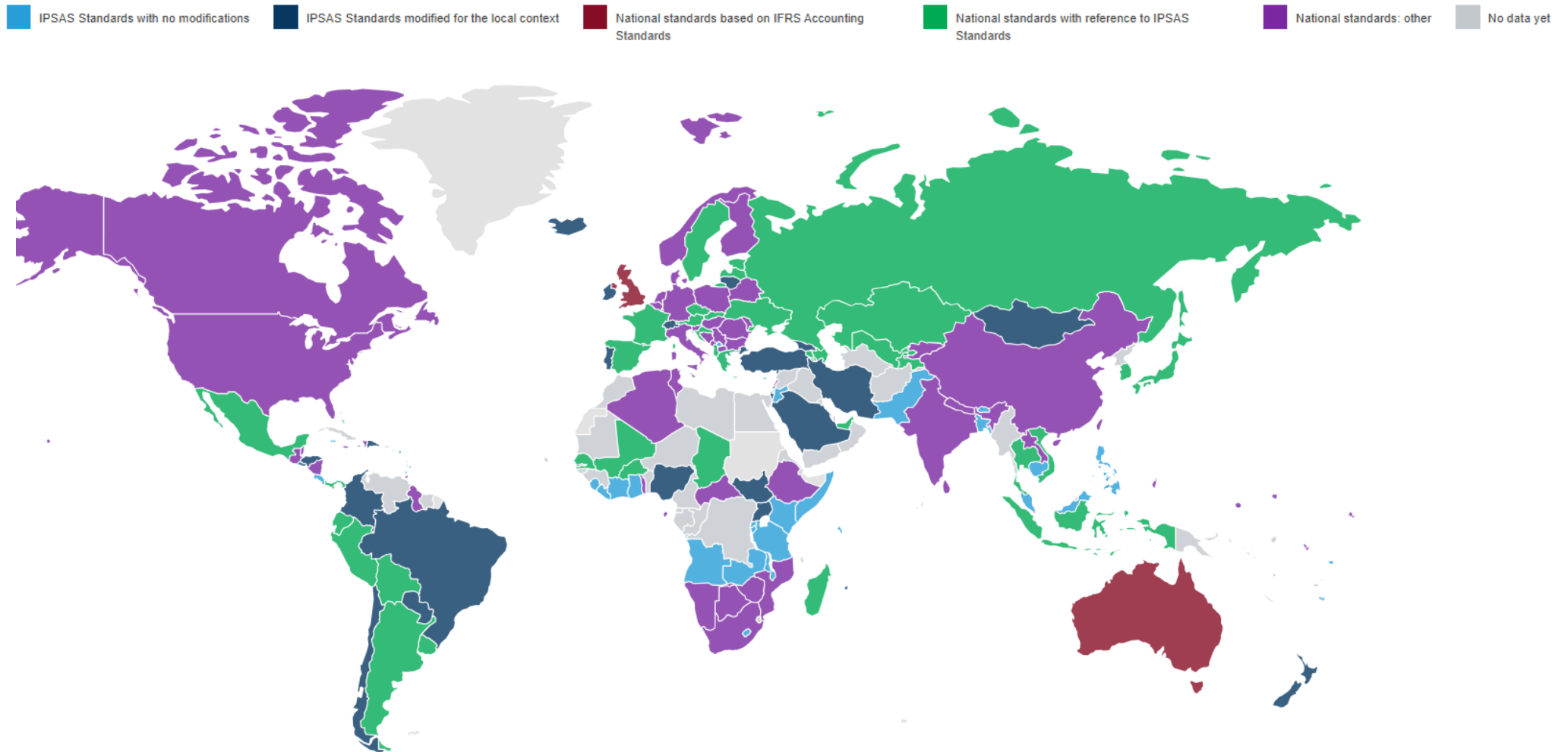
Cash-basis IPSAS has been adopted.

Not Adopted – IPSAS have not been adopted – either partial-accrual basis national standards OR cash-basis national standards are adopted.

⁵² Source: [Adoption Status | IFAC](#), retrieved 14 August 2026

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

Appendix 2 – IPSAS international adoption with modifications⁵³



⁵³ Source: [Accountability Index](#), retrieved 14 August 2026

Public Benefit Entity International Public Sector Accounting Standards (PBE Standards)

Fact Sheet

This fact sheet intends to provide an overview of the Public Benefit Entity Standards (PBE Standards) which are primarily based on International Public Sector Accounting Standards (IPSAS) to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the IPSAS framework which is the basis for PBE Standards

What the IPSAS framework is

International Public Sector Accounting Standards (IPSAS) are a globally recognised set of accounting requirements for general purpose financial reports prepared by public sector entities. They are developed by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting board supported by the International Federation of Accountants (IFAC). IPSAS is designed to improve transparency, accountability, consistency and comparability of financial reporting across public sector jurisdictions.

Who IPSAS is mainly designed for

IPSAS is primarily designed for governments and other public sector entities, including national and local governments and related government agencies. IPSAS focuses on meeting the information needs of a broad set of users of public sector financial reports, including taxpayers, ratepayers, legislators, service recipients, resource providers and their representatives, and creditors who rely on financial information for accountability and decision-making purposes.

IPSAS is an international public sector benchmark

IPSAS is widely recognised internationally as the leading framework for accrual-based public sector financial reporting. IPSAS Standards are developed through a transparent international due process, including public consultation on proposed requirements and consideration of feedback from stakeholders across jurisdictions.

Based on IPSASB adoption data, 117 jurisdictions apply either accrual or partial accrual accounting. Of these jurisdictions, 77 use IPSAS, modified IPSAS, or national standards that refer to IPSAS Standards. As a result, IPSAS is often used as an international benchmark for financial reporting in the public sector.

Key characteristics of the IPSAS framework

- Builds upon IFRS Accounting Standards while addressing public sector-specific circumstances.
- Principles-based requirements rather than highly prescriptive rules-based accounting treatments.
- Strong focus on professional judgement and reflecting the economic substance of transactions and events. **Accrual accounting, with financial statements reflecting transactions and events when they occur rather than only when cash is received or paid.**
- A mixed measurement model using historical cost in some areas and current value measures in others.
- Extensive presentation and disclosure requirements intended to help users understand recognised amounts, risks, assumptions, estimates and significant judgements.

IPSAS®

At a glance

PBE Standards provide a comprehensive framework for public sector accountability and decision-making, supporting internationally comparable financial reports for governments and other public sector entities. However, it involves complexity and implementation costs for preparers.

PBE Standards is based on IPSAS and tailored for New Zealand

In New Zealand, the XRB issues Public Benefit Entity International Public Sector Accounting Standards (**PBE Standards**) for Tier 1 and Tier 2 public benefit entities (**PBEs**) which includes public sector and not-for-profit entities. PBE Standards are primarily based on IPSAS issued by the IPSASB, but the NZASB modifies requirements where necessary to improve their relevance and applicability in New Zealand. These modifications may include adding guidance to reflect New Zealand legislation and regulatory requirements or provide additional guidance for not-for-profit entities as IPSAS is designed for public sector entities.

How PBE Standards works in practice

PBE Standards sets requirements for recognition, measurement, presentation and disclosure.

Recognition requirements determine what items are reported

Recognition determines when assets, liabilities, revenue and expenses are included in the financial statements, while measurement determines the amounts at which they are reported. Recognition depends on whether the item meets the applicable definition and recognition criteria and provides information that faithfully represents the underlying transaction or event.

Measurement requirements determine how reported items are valued

Measurement determines the amounts at which assets, liabilities, revenue and expenses are reported. PBE Standards use a mixed measurement model that is most appropriate to the nature of the item, meaning some items are measured using historical cost while others use current value measures such as fair value, amortised cost, revalued amount, or the lower of cost and net realisable value.

Presentation and disclosure requirements help communicate items to users

Presentation requirements determine how information is organised and displayed within financial reports by setting out requirements for how assets, liabilities, revenue and expenses are classified, grouped and presented to support understandability and comparability. Disclosure requirements provide additional information about recognised and unrecognised items, supplementary information, risks, assumptions, estimates, judgements and methods used in preparing the financial statements.

New Zealand reduced-disclosure context

In New Zealand, Tier 2 PBEs apply PBE Standards with Reduced Disclosure Requirements (**PBE Standards with RDR**), which retains the same recognition and measurement requirements as full PBE Standards but with fewer disclosures.

PBE Standards are not a single accounting standard

PBE Standards are a broader reporting framework made up of several components that work together to support consistent and comparable financial reporting. The PBE Standards framework includes:

- **PBE Standards based on IPSAS** – Standards issued by the NZASB that are primarily based on IPSAS and adapted where necessary for New Zealand circumstances.
- **Other PBE Standards** – Standards issued by the XRB for topics not covered by IPSAS or where New Zealand-specific requirements are needed, including standards based on for-profit standards (such as PBE IAS 12 *Income Taxes*) and other local reporting requirements (such as PBE FRS 48 *Service Performance Reporting*).
- **The PBE Conceptual Framework** – Overarching concepts that support the development and application of PBE Standards, including principles relating to recognition, measurement and presentation.
- **Supporting guidance and educational material** – Additional non-mandatory material published by the IPSASB, XRB and IASB to support consistent application and understanding of PBE standards.

International Financial Reporting Standards (IFRS)

Fact Sheet

This fact sheet intends to provide an overview of the International Financial Reporting Standards Accounting Standards to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the IFRS framework

What the IFRS framework is

International Financial Reporting Standards (IFRS) Accounting Standards are a globally recognised set of accounting requirements for general purpose financial statements. They are developed by the International Accounting Standards Board (IASB), within the IFRS Foundation. IFRS is designed to improve transparency, consistency and comparability of financial reporting across jurisdictions.

Who IFRS is mainly designed for

IFRS is primarily designed for publicly accountable entities, especially listed entities and other entities whose financial statements are used by investors, lenders and other capital-market participants. In many jurisdictions, IFRS forms the main reporting framework for these entities.

IFRS is an international benchmark

IFRS is widely used internationally and is designed to support comparability across jurisdictions. The IFRS Foundation currently has complete profiles for 169 jurisdictions, of which 148 jurisdictions require IFRS Accounting Standards for all or most domestic publicly accountable entities, 12 permit their use for at least some domestic publicly accountable entities, and 161 have made a public commitment to IFRS Accounting Standards. As a result, IFRS is often used as an international benchmark for accounting.

Key characteristics of the IFRS framework

- Principles-based requirements rather than highly prescriptive rules-based accounting treatments.
- Strong focus on professional judgement and reflecting the economic substance of transactions and events.
- Accrual accounting, with financial statements reflecting transactions and events when they occur rather than only when cash is received or paid.
- A mixed measurement model using historical cost in some areas and current value or fair value in others.
- Extensive presentation and disclosure requirements intended to help users understand recognised amounts, risks, assumptions, estimates and significant judgements.

How IFRS works in practice

IFRS sets requirements for recognition, measurement, presentation and disclosure.

Recognition requirements determine what items are reported



At a glance

IFRS provides a comprehensive framework for public accountability to international investors, where users rely on high-quality, globally comparable information for capital-allocation decisions, but comes with complexity and reporting costs.

Recognition determines when assets, liabilities, income and expenses are included in the financial statements, while measurement determines the amounts at which they are reported. Recognition depends on whether the item provides useful information that faithfully represents the economic substance of the transaction.

Measurement requirements determine how reported items are valued

Measurement determines the amounts at which assets, liabilities, income and expenses are reported. IFRS uses a mixed measurement model most appropriate to the nature of the item, meaning some items are measured using historical cost while others use current value measures such as fair value, amortised cost, recoverable amount, or the lower of cost and net realisable value. Specific measurement requirements are specified for each type of asset and liability which an entity may hold and these vary based on what users would consider to be relevant information for that type of asset or liability.

Presentation and disclosure requirements help communicate items to users

IFRS includes presentation and disclosure requirements intended to help users understand financial performance, position, risks, assumptions and significant judgements. Presentation requirements determine how information is organised and displayed within the financial statements by setting out requirements for how assets, liabilities, income and expenses are classified, grouped and presented to support understandability and comparability.

Disclosure requirements provide additional information about recognised and unrecognised items, supplementary information, risks, assumptions, estimates, judgements and methods used in preparing the financial statements.

New Zealand reduced-disclosure context

In New Zealand, Tier 2 for-profit entities apply NZ IFRS with Reduced Disclosure Requirements (**NZ IFRS RDR**), which retains the same recognition and measurement requirements as full NZ IFRS but with fewer disclosures.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, a voluntary IFRS standard, provides alternative reduced disclosures for eligible subsidiaries without public accountability where the parent prepares publicly available consolidated financial statements.

IFRS is not a single accounting standard

IFRS is not a single accounting standard. It is a broader reporting framework made up of several components that work together to support consistent and comparable financial reporting. The IFRS framework includes:

- **IFRS Accounting Standards** – Standards issued by the IASB after its establishment in 2001, such as IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*.
- **International Accounting Standards (IAS Standards)** – Earlier standards issued before the IFRS Foundation was rebranded, many of which remain in force today, such as IAS 38 *Intangible Assets*.
- **IFRIC and SIC Interpretations** – Interpretative guidance clarifies the application of requirements in specific situations.
- **The Conceptual Framework** – Overarching concepts that support the development and application of IFRS, including principles relating to recognition, measurement and presentation.
- **Supporting guidance and educational material** – Additional non-mandatory material published by the IFRS Foundation and IASB to support consistent application and understanding of the standards.

Australian Accounting Standards (AASB Standards) Fact Sheet

This fact sheet intends to provide an overview of the Australian Accounting Standards to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the AASB framework

What AASB Standards are

Australian Accounting Standards (**AASB Standards**) are the principal accounting requirements used for preparing general purpose financial statements in Australia. They are issued by the Australian Accounting Standards Board (**AASB**)⁵⁴.

The AASB Standards are based on International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**) but include additional requirements and modifications where necessary to address Australian legislative, regulatory and not-for-profit reporting needs. AASB Standards maintain a strong connection with the international IFRS framework.

Who AASB Standards are mainly designed for

AASB Standards apply to a broad range of entities, including for-profit entities, public sector entities and private sector not-for-profit entities. For publicly accountable for-profit entities, the requirements are substantially aligned with IFRS.

For public sector and private sector not-for-profit entities (**NFP entities**), the AASB has adapted and supplemented the IFRS-based requirements to address transactions and circumstances that are more common in the NFP sector.

References to 'NFP entities' in this factsheet include both public sector and private not-for-profit entities, in line with the scope used in Australia, and are broadly comparable to 'Public Benefit Entities' (**PBEs**) in New Zealand.

How AASB Standards works in practice

AASB Standards incorporate the recognition and measurement requirements of IFRS Accounting Standards for for-profit entities and include Australian-specific requirements and guidance where necessary. For NFP entities, the AASB has modified several standards and added Australian-specific standards to address transactions and circumstances that are common for NFP entities, such as grants, donations, volunteer services and concessionary leases. The AASB generally updates its standards in response to changes made by the IASB while also considering Australian-specific reporting needs.

Australian reduced-disclosure context

In Australia, Tier 2 entities may apply reduced disclosure requirements under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (**AASB 1060**). AASB 1060 retains the same recognition and measurement requirements as the applicable AASB Standards but significantly reduces disclosure requirements.



Australian Government

Australian Accounting Standards Board

At a glance

AASB Standards are based on IFRS Standards and adapted where necessary for the Australian context, including modifications and additional requirements for not-for-profit entities. The single reporting framework supports high-quality, reporting for all entities, but can involve significant complexity and compliance costs, particularly for smaller entities.

⁵⁴ From 1 October 2026, the AASB will become part of External Reporting Australia (ERA), a new single body that combines Australia's accounting, auditing, assurance and sustainability standard-setting functions.

In developing AASB 1060, the AASB used the IFRS for SMEs Accounting Standard as its primary starting point when determining which disclosures should be required for smaller entities. However, unlike IFRS for SMEs, AASB 1060 does not adopt separate recognition and measurement requirements.

High-level comparison of AASB Standards and IPSAS reporting frameworks

Area	Australian-adapted IFRS framework (NFP)	PBE Standards based on IPSAS
Approach	Based on IFRS standards with specific modifications in some areas for NFP entities	PBE Standards are primarily based on IPSAS, which are developed specifically for the public sector, reflecting common public sector transactions, user needs and accountability relationships. Some IPSAS are based on IFRS, but the IPSASB considers suitability for the public sector and makes public sector modifications when required. Other IPSAS cover topics not addressed by IFRS.
International use	NFP-specific modifications applicable to Australian NFP entities only	Adopted internationally across several other jurisdictions.
Global comparability	NFP-specific modifications designed for Australian NFP entities, but considers other international frameworks such as IPSAS	Designed to support international comparability

Illustrative approaches for measurement:

Financial Statement Line Item	Australian-adapted IFRS framework (private sector NFP)	PBE Standards based on IPSAS
Revenue	Revenue from contracts with customers (such as providing services, goods or other assets to customers) is based on IFRS 15 – revenue is recognised when or as the entity satisfies performance obligations) For NFP entities, contracts that are unenforceable or not sufficiently specific – revenue is recognised immediately on recognising the asset received with some exceptions	PBE Standards differentiate between revenues ⁵⁵ • <u>from non-exchange transactions</u> – revenue is recognised when or as present obligations are satisfied or immediately if there are no such obligations • <u>from exchange transactions</u> – revenue recognition depends on type of revenue and • <u>from construction contracts</u>
Expenses	Various IFRS-based standards – There is no specific standard for transfer expenses.	Various IPSASB-based standards – There is no specific standard for transfer expenses. ⁵⁶

⁵⁵ The NZASB has proposed PBE IPSAS 47 *Revenue*, which would supersede PBE IPSAS 9 *Revenue from Exchange Transactions*, PBE IPSAS 11 *Construction Contracts* and PBE IPSAS 23 *Revenue from Non-Exchange Transactions*. The proposed standard would introduce a single source of revenue guidance for Tier 1 and Tier 2 PBEs, with two accounting models depending on whether a binding arrangement exists. Consultation closed on 1 December 2025 and the proposed mandatory date is 1 January 2029.

⁵⁶ The proposed PBE IPSAS 48 *Transfer Expenses* – differentiates between expenses from transactions without and with binding arrangements.

Property, plant and equipment (e.g. land and buildings)	Generally measured using either a historical cost model or a revaluation model, adjusted for depreciation. NFP-specific requirements to measure PPE on initial recognition at fair value, if the consideration for the asset is significantly less than fair value. There is limited guidance for impairment of non-cash generating assets.	Generally measured using either a historical cost model or a revaluation model, adjusted for depreciation. Requirements to measure PPE on initial recognition at fair value, if the asset was acquired in a non-exchange transaction (where reliable estimates can be made). PBE IPSAS 21 provides guidance for impairment of non-cash-generating assets.
Intangibles	Generally measured at historical cost less amortisation and impairment. Revaluation permitted only where an active market exists.	Generally measured at historical cost less amortisation and impairment. Revaluation permitted only where an active market exists.
Inventories	Generally measured at the lower of cost and net realisable value, except that inventory held for distribution by NFPs at no or nominal considerations in the ordinary course of operations, are measured at cost, adjusted when applicable for any loss of service potential. NFP-specific requirements to measure inventory on initial recognition at 'current replacement cost', if the consideration for those inventories is significantly less than fair value.	Generally measured at the lower of cost and net realisable value, except that inventories held for distribution at no charge or at nominal charge are measured at cost, adjusted for any loss of service potential. Inventories acquired through a non-exchange transaction are initially measured at fair value.
Financial instruments	Aligned with IFRS requirements around financial instruments.	Largely aligned with IFRS requirements around financial instruments.
Leases (lessee)	For most leases, lessees recognise a right-of-use asset and lease liability. No finance and operating lease distinction. NFP lessees may elect to measure a right-of-use asset at fair value (instead of cost) on initial recognition, when the terms are significantly below-market.	Requirements for both finance and operating leases. Finance leases are recognised on balance sheet, while operating lease payments are recognised as an expense over the lease term.
Service Performance Reporting	No reporting requirements for service performance information.	PBE FRS 48 <i>Service Performance Reporting</i> provides guidance for performance reporting, including overview of not-for-profit entity.

Appendix 6 – Locally modified standards – Indicative approach

Consider locally modified standards

Locally modified standards could improve relevance for some New Zealand entities by allowing requirements to be adapted to the local operating environment, including domestic, legal, regulatory and reporting settings. These possible benefits would need to be considered alongside the benefits of international alignment, including comparability, shared standard-setting infrastructure, and access to international guidance and implementation support.

For a small jurisdiction such as New Zealand, one possible approach could be to start with an established international or foreign framework and then consider targeted modifications where needed for New Zealand conditions. This appendix outlines, in broad terms, what that could involve.

Understanding the purpose of locally modified standards

The purpose of locally modified standards would be to adapt an established set of requirements, so they reflect New Zealand user needs and the local legal, regulatory and reporting environment. Depending on the design of the framework, modifications could affect recognition, measurement, presentation and disclosure requirements.

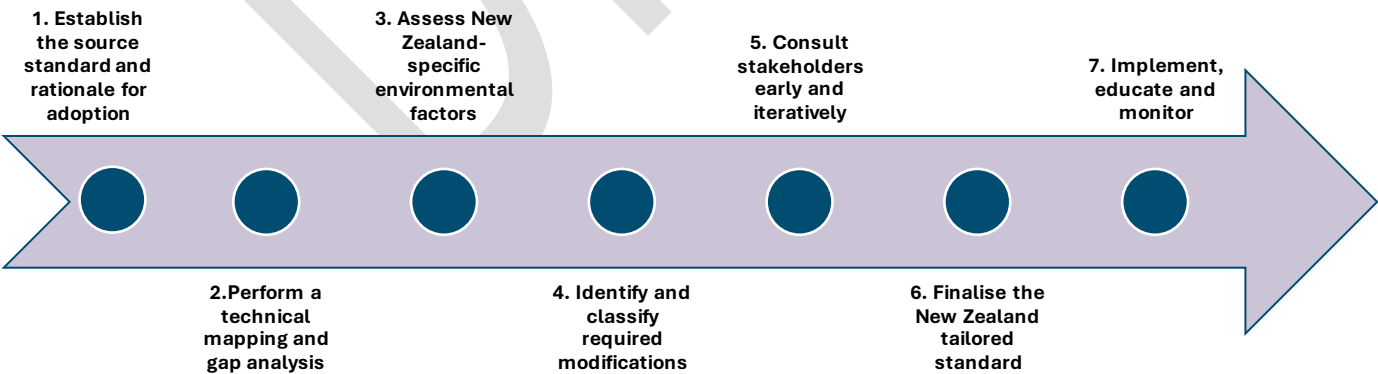
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

Outline of the possible process

This appendix outlines an indicative process that could be used if New Zealand were to develop accounting standards using another jurisdiction’s requirements as a starting point and then consider whether modifications are needed for the New Zealand context.

It is included to help stakeholders understand what a locally modified approach could involve. Any such approach would need to balance domestic relevance and operability with comparability, timeliness, and the ability to rely on international due process, guidance and implementation experience.

Indicative steps to follow when developing this framework



1. Establish the source standard and rationale for adoption

Based on an established understanding of the New Zealand environment and user needs, an initial step is to identify the standard/framework that would serve as the starting point and to explain why it is considered the most appropriate base. The source standard could be a general-purpose or special-purpose reporting framework and could differ depending on the sector or type of transaction, and would need to consider other potential implications with the source standard, such as licensing agreements and maintenance processes.

Relevant considerations might include:

- Alignment with New Zealand’s environmental factors and its size, scale and complexity;
- The maturity, credibility, and stability of the source jurisdiction’s standard;
- Global best practices and developments;
- Whether the source standard addresses the reporting issue more comprehensively than existing NZ standards; i.e. simplified standards and easier recognition and measurement principles;
- Whether there are any licensing agreements, development, maintenance, comparability and transition challenges.

2. Perform a technical mapping and gap analysis

A further step would be to understand the content of the source standard and identify where modification may be needed for New Zealand. This could be analysed through a gap analysis. Activities might include:

- Mapping each section of the source standard to existing NZ standards or frameworks;
- Identifying conceptual differences with the objective of the NZ Accounting Standards Framework;
- Assessing terminology differences (e.g., references to foreign regulators, legal constructs, or sector structures); and
- Identifying areas where the source standard presumes institutional arrangements which do not exist in New Zealand.

3. Assess New Zealand-specific environmental factors

The next step would be to consider which aspects of the New Zealand environment may warrant tailoring. Indicative factors might include:

- **Legal and regulatory context:** Companies Act 1993, Public Finance Act 1989, Crown Entities Act 2004, Local Government Act 2002 Financial Markets Conduct Act 2013, Charities Act 2005, and other relevant for-profit, public sector and not-for-profit specific legislative requirements
- **Public sector structure:** Distinctive features of the Crown, local government, Māori entities, and mixed-ownership models.
- **Economic characteristics:** Size of capital markets, prevalence of small-to-medium sized enterprises, cooperative structures, iwi organisations.
- **User needs:** Taxpayers, ratepayers, service recipients, resource providers and their representatives, investors, donors, funders and lenders where relevant, public accountability requirements.
- **Existing NZ reporting tiers:** Whether the standard must be adapted for multi-tier reporting.

4. Identify and classify required modifications

The nature and extent of any changes to the source standard would then need to be considered. Possible categories of modification could include:

- **Editorial changes:** Terminology, references to NZ law, definitions.
- **Scope adjustments:** Applicability to NZ reporting tiers and sectors or to allow for more cost-effective reporting.
- **Recognition and measurement changes:** Necessary to allow for simplification, maintain relevance or coherence with other NZ reporting frameworks or to allow for more cost-effective reporting.
- **Disclosure modifications:** Additional or reduced disclosures to reflect NZ user needs or to allow for more cost-effective reporting.
- **Transitional provisions:** Tailored effective dates or reliefs for NZ entities or to allow for more cost-effective reporting.

Any modifications would need to be supported by a clear rationale, including why a change is considered necessary to maintain relevance, coherence or operability in New Zealand. A key consideration would be whether any change improves

cost-effectiveness without undermining the accountability and decision-making usefulness of information for users of financial statements. These modifications will also keep simplification in mind.

Focus on key considerations

In considering whether a source standard should be modified for New Zealand, the main questions are likely to be whether the requirements fit New Zealand law and institutions, reflect the needs of New Zealand users, are proportionate to the size and complexity of affected entities, and remain sufficiently aligned with international practice where comparability is important.

These considerations could apply across recognition, measurement, presentation and disclosure. They could also include whether the requirements are practical to apply in New Zealand, whether suitable data and systems are available, and whether any change would improve cost-effectiveness without reducing the usefulness of the information provided.

Overarching assessment principles

The following indicative New Zealand specific considerations could be asked to assess whether any requirements should be modified:

- **User-needs alignment** – Does the requirement provide information that primary users of NZ financial statements need? Are the information needs of NZ users (investors, creditors, iwi/Māori entities, public sector stakeholders, NFP donors) different from those assumed in the foreign standard?
- **Cost-benefit proportionality** – Are compliance costs reasonable relative to the benefits for NZ users? Do the requirements suit the size and nature of small and medium entities within NZ, or would smaller entities face disproportionate burdens?
- **Domestic legal and regulatory fit** – Does the requirement align with NZ legislation, or are there conflicts with New Zealand-specific regulatory definitions (e.g., public accountability, large entity thresholds)?
- **International harmonisation** – Would modifying the requirement undermine comparability with international entities where this is considered valuable for those users of financial statements? Is the modification necessary despite reduced comparability?
- **Climate-related and non-financial reporting integration** – Do the requirements create any conflicts with other NZ reporting frameworks (e.g. climate-related disclosure framework)?

Criteria for modifying Recognition requirements

Recognition criteria determine **whether** an item appears in the financial statements. The following indicative questions could be asked to assess whether recognition requirements should be modified:

- **Economic substance in NZ Context** – Does the recognition requirements reflect NZ economic conditions (e.g., prevalence of small entities, Māori land trusts, cooperatives)? Are NZ-specific transactions sufficiently captured?
- **Materiality and Practicality** – Would recognition rules create immaterial or misleading results for NZ entities? Is the recognition test too complex for smaller entities?
- **Faithful Representation** – Would applying the recognition requirements distort NZ-specific arrangements (e.g., revenue recognition for NFP grants)?

Criteria for modifying Measurement requirements

Measurement requirements determine how items are valued. The following indicative questions could be asked to assess whether measurement requirements should be modified:

- **Availability of Reliable NZ-Specific Inputs** – Are inputs readily available in NZ markets to allow for the measurement requirements to be practical? Do thin or illiquid NZ markets make measurement models impractical?
- **Cost Burden** – Does the measurement basis impose excessive valuation costs (e.g., annual revaluations for small entities)?

- **Relevance to NZ Users** – Would a simpler measurement basis (e.g., cost instead of fair value) still meet user needs?

Criteria for modifying **Presentation** requirements

Presentation determines how information is structured and displayed. The following indicative questions could be asked to assess whether presentation requirements should be modified:

- **Compatibility with NZ reporting practices** – Do the presentation requirements impose additional costs to NZ entities?
- **Understandability for NZ users** – Would NZ users find the presentation requirements intuitive and useful?
- **New Zealand applicability** – Do presentation requirements designed for **international** markets make sense for New Zealand reporting entities?

Criteria for modifying **Disclosure** requirements

Disclosure requirements provide additional supplementary information to support users' decision-making. The following indicative questions could be asked to assess whether disclosure requirements should be modified:

- **User relevance in NZ** – Do NZ users need the level of granularity required by the disclosure requirements?
- **Avoiding boilerplate overload** – Would the disclosure requirement lead to generic, low-value statements?
- **New Zealand specific considerations** – Should disclosures reflect NZ's context (e.g., stewardship of taonga assets, tikanga-based governance)?

5. Consult stakeholders early and iteratively

Stakeholder input would be an important part of any locally modified approach. For example, a domestic exposure draft of proposed requirements could be developed and tested with groups such as:

- Relevant preparers (corporates, small-to-medium enterprises, public sector entities, not-for-profit entities);
- Auditors and professional bodies;
- Investors, analysts, and public sector users;
- Sector-specific groups; and
- Regulators and other stakeholders (Financial Markets Authority, Treasury, Department of Internal Affairs, The Audit Office).

6. Finalise the New Zealand-tailored standard

Following consultation, the standard could then be finalised in a way that remains faithful to the source framework while being operable in New Zealand. This could involve steps such as:

- Incorporating stakeholder feedback;
- Ensure internal consistency with the New Zealand Accounting Standards Framework;
- Conduct a final legal and technical review;
- Prepare 'Basis for Conclusions' explaining why the source standard was chosen, what modifications were made and why and how NZ-specific factors were addressed; and
- Approve through the **XRB's** formal due-process steps.

7. Implement, educate and monitor

If a locally modified standard were introduced, implementation support and ongoing monitoring would also be important. Depending on the nature of the standard and the range of affected entities, this might include:

- Publish implementation guidance, FAQs, and illustrative examples;

- Conduct outreach sessions and webinars;
- Monitor early application issues; and
- Establish a post-implementation review timeline (typically 3-5 years after the effective date of the requirements).

Consider the potential advantages

Better flexibility to domestic user needs	A locally modified approach could allow greater flexibility to respond to New Zealand user needs, including where targeted simplifications or additional disclosures are considered appropriate.
Tailored to New Zealand's economic characteristics	Locally modified standards could better reflect the size, structure and reporting context of New Zealand entities, including small and medium-sized entities, cooperatives and public benefit entities, which could lower overall costs within the system.
Stronger alignment with New Zealand's legal and institutional environment	Locally modified standards could be aligned more closely with New Zealand legislation and institutional arrangements. This may reduce ambiguity where source standards refer to legal or regulatory concepts that do not apply in New Zealand.
Enhanced sovereignty and public trust	Local development could increase stakeholder input into standard-setting and may support confidence that standards reflect New Zealand circumstances and priorities.

Consider the potential disadvantages

Reduced international comparability	Locally modified standards may reduce comparability with entities applying international frameworks. This may matter more where users place weight on international comparability, credibility or access to international guidance and practice.
Higher development and maintenance costs	Developing and maintaining locally modified standards would require technical analysis, consultation, drafting and ongoing review. Compared with direct adoption of international standards, this would increase demands on standard-setting resources. It may also take longer to consider, adapt and issue updated requirements in New Zealand.
System and infrastructure challenges	If local requirements diverge from widely used international frameworks, entities and service providers may need additional guidance, training or system changes. Divergence may also reduce the ability to use common international tools or practices without adaptation.
Slower adoption of global best practice	International standard setters undertake research, consultation, due process and post-implementation activity across multiple jurisdictions. A locally modified approach may reduce the extent to which New Zealand can rely directly on that infrastructure.
Risk of over-tailoring	Tailoring can improve local fit, but additional modifications can also increase complexity and make standards harder to maintain over time.

International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs)

Fact Sheet

This fact sheet intends to provide an overview of the IFRS for SMEs standard to support the analysis of the Accounting Standards Framework discussion paper.

Overview of the IFRS for SMEs framework

What IFRS for SMEs is

The International Financial Reporting Standards for Small and Medium-Sized Entities (**IFRS for SMEs**) is a simplified international financial reporting framework developed by the International Accounting Standards Board (**IASB**) for entities without public accountability.

It is based on the principles of full IFRS Accounting Standards but is designed to reduce complexity, disclosure requirements, and implementation burden for smaller and less complex entities.

The framework simplifies a number of accounting requirements, removes some topics considered less relevant to smaller entities, and includes fewer disclosure requirements than full IFRS Accounting Standards.

Who IFRS for SMEs is mainly designed for

IFRS for SMEs is designed for entities that do not have public accountability and prepare general purpose financial statements for external users such as lenders, owners, creditors, or other stakeholders. The framework is generally intended for privately-owned and less complex entities rather than those that are listed or publicly accountable and do not enter into complex transactions frequently. Public accountability is defined in New Zealand in [XRBA1 Application of the Accounting Standards Framework](#).

IFRS for SMEs as an international benchmark

IFRS for SMEs is used or permitted in many jurisdictions internationally as a simplified reporting framework for eligible private entities. It is designed to provide an internationally recognised financial reporting framework while reducing the complexity and disclosure burden associated with full IFRS Accounting Standards. Although adoption varies across jurisdictions, IFRS for SMEs is often considered when jurisdictions assess simplified reporting frameworks for non-publicly accountable entities.

Key characteristics of the IFRS for SMEs reporting framework

Key characteristics of the IFRS for SMEs reporting framework include:

- Simplified accounting requirements compared to full IFRS Accounting Standards with reduced disclosure requirements.
- Based on historical cost accounting, with limited use of fair value and fewer accounting policy options
- Intended to be easier and less costly to apply and maintain over time with less frequent changes

IFRS for SMEs[®]

Accounting Standard

At a glance

IFRS for SMEs provides a simplified financial reporting framework for entities without public accountability—but at the cost of reduced flexibility, limited accounting options, and suitability for more complex or evolving transactions.

How IFRS for SMEs works in practice

IFRS for SMEs contains simplified recognition and measurement requirements (based on historical IFRS standards) and includes limited accounting policy options, does not require the use of fair value measurement in some areas and contains limited disclosure requirements. Compared to full IFRS Accounting Standards, the requirements are less detailed and not designed to impose complex requirements for simple transactions,

IFRS for SMEs is developed and maintained by the IASB, who follows a formal due process involving stakeholder engagement, public consultation and exposure drafts when developing or amending the standard. Updates to IFRS for SMEs are generally made less frequently than updates to full IFRS Accounting Standards, which helps provide greater stability for preparers.

High-level comparison of IFRS for SMEs and full IFRS reporting frameworks

Area	IFRS for SMEs	Full IFRS Accounting Standards
Approach	Simplified accounting requirements with certain judgements and fair value requirements reduced	Often considered to be principles-based to allow for faithful representation of simple and complex transactions
International use	Used or permitted in many jurisdictions for eligible private entities	Widely adopted internationally across other jurisdictional capital markets
Global comparability	Designed for entities without public accountability, generally private and less complex entities	Designed to support international comparability

Illustrative approaches for measurement:

Asset/liability	IFRS for SMEs	IFRS Accounting Standards
Property, plant and equipment (e.g. land and buildings)	Generally measured using either a historical cost model or a revaluation model, adjusted for depreciation. Impairment assessments limited to reviewing indicators.	Generally measured using either a historical cost model or a revaluation model. Impairment assessments required in certain situations.
Inventories	Measured at the lower of cost and selling price less costs to complete and sell.	Measured at the lower of cost and net realisable value. Reversals of inventory write-downs may be permitted.
Intangible assets	Generally measured at cost less amortisation and impairment. Revaluation is not permitted.	Generally measured at historical cost less amortisation and impairment. Revaluation permitted only where an active market exists.
Goodwill	Goodwill is amortised over its useful life (default 10-year period).	Amortisation is prohibited and tests for impairment must be performed annually.
Financial instruments	Basic financial instruments are measured at amortised cost using the effective interest method. Complex financial instruments are measured at fair value through profit or loss.	Measured using amortised cost, fair value through OCI or profit/loss depending on classification. Certain assets are subject to expected credit loss requirements.
Leases (lessee)	Requirements for both finance and operating leases. Finance leases are recognised on balance sheet, while operating lease payments are recognised as an expense over the lease term.	For most leases, entities recognise a right-of-use asset and lease liability. No finance and operating lease distinction and single accounting model required for all leases.

Appendix 8 – Tier 1 and 2 public sector overview and framework options analysis

Note:

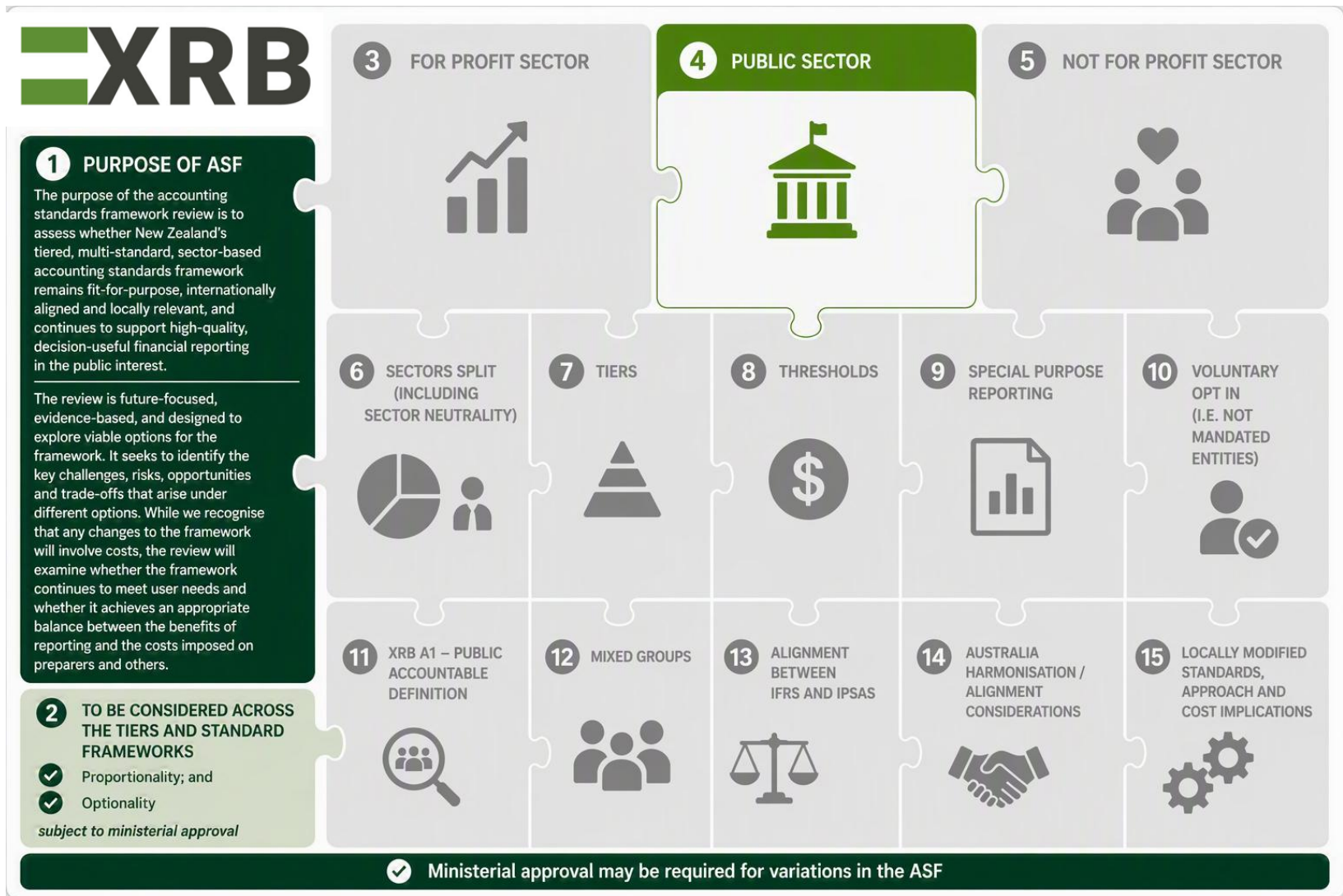
The overview slides for this paper are on the following page. These overview slides also contain the **framework criteria assessment**.

Tier 1 and Tier 2 public sector overview and context



ASF Review – Where the public sector review fits in

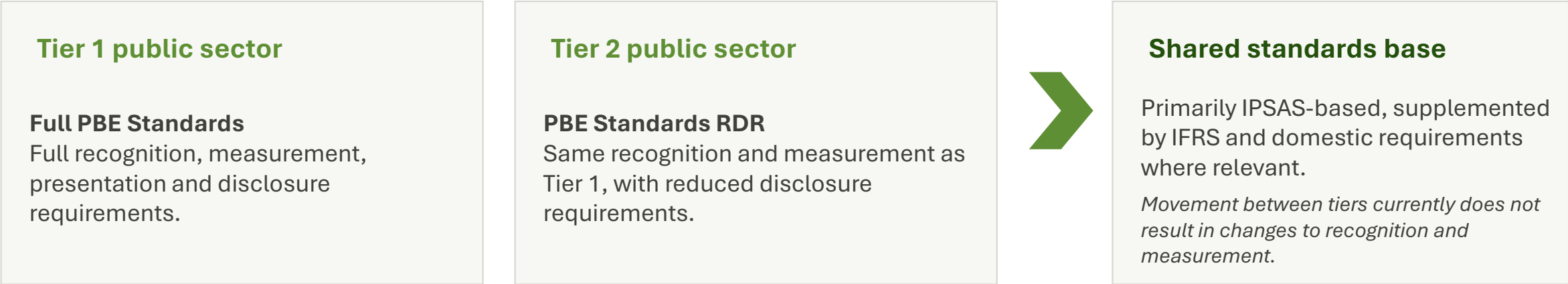
The public sector sits within the wider Accounting Standards Framework review – as element 4.



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



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



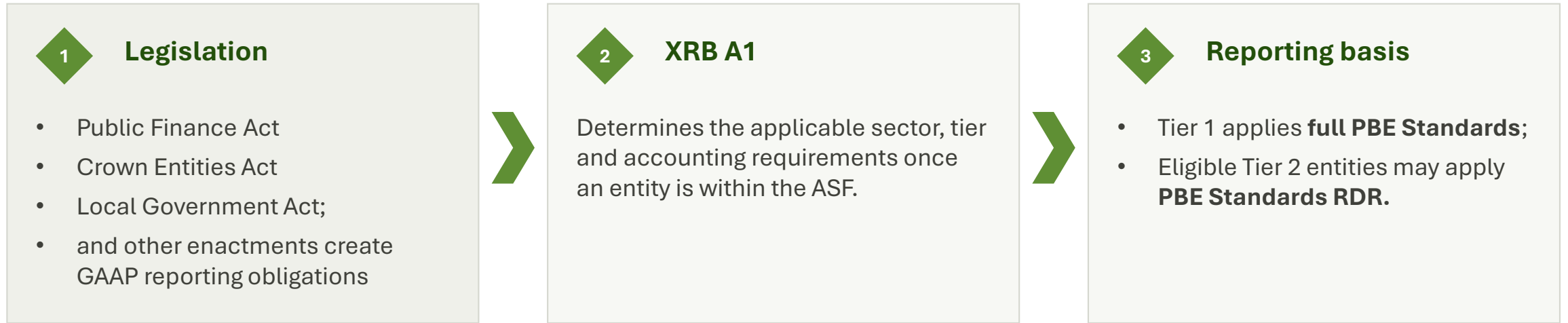
Why IPSAS was selected as the primary reference point

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

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

Legislative and regulatory environment

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



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

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

Tier 1 public sector entities

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

OR

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

Tier 1 public sector entity characteristics

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

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

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

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

Tier 2 public sector entities

Tier 2 public sector entity characteristics

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

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

A public sector entity that has no public accountability

OR

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

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

Characteristics of the reporting population



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

Tier 1

189 total indicative public-sector entities.

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

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

Tier 2

2,602 total indicative public sector entities.

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

Tier 2 schools adjusted population: ~790 entities.*

What matters for this review

Schools materially affect the composition of the Tier 2 population.

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

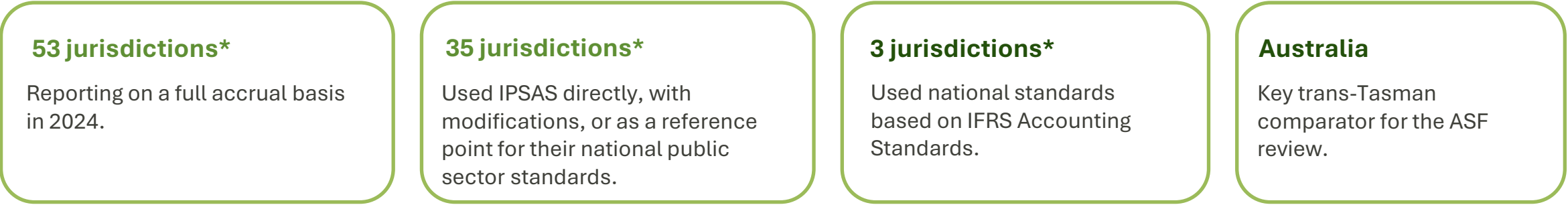
The practical distinction between Tier 1 and Tier 2 is reduced disclosures — not recognition and measurement

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

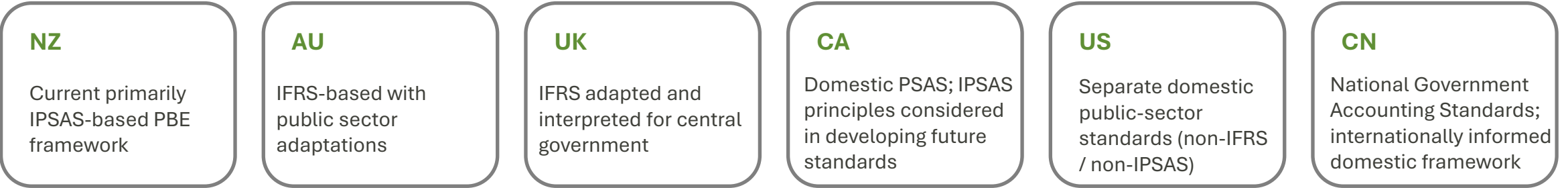
* Of the 2,417 schools reporting in Tier 2, approximately 1,812 (about 75% of the school population), are eligible to report in a lower tier but report in Tier 2 due to [Ministry of Education's prescribed school financial reporting framework](#).

International practice, alignment and comparability

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



Selected comparators in the paper**



How to interpret alignment

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

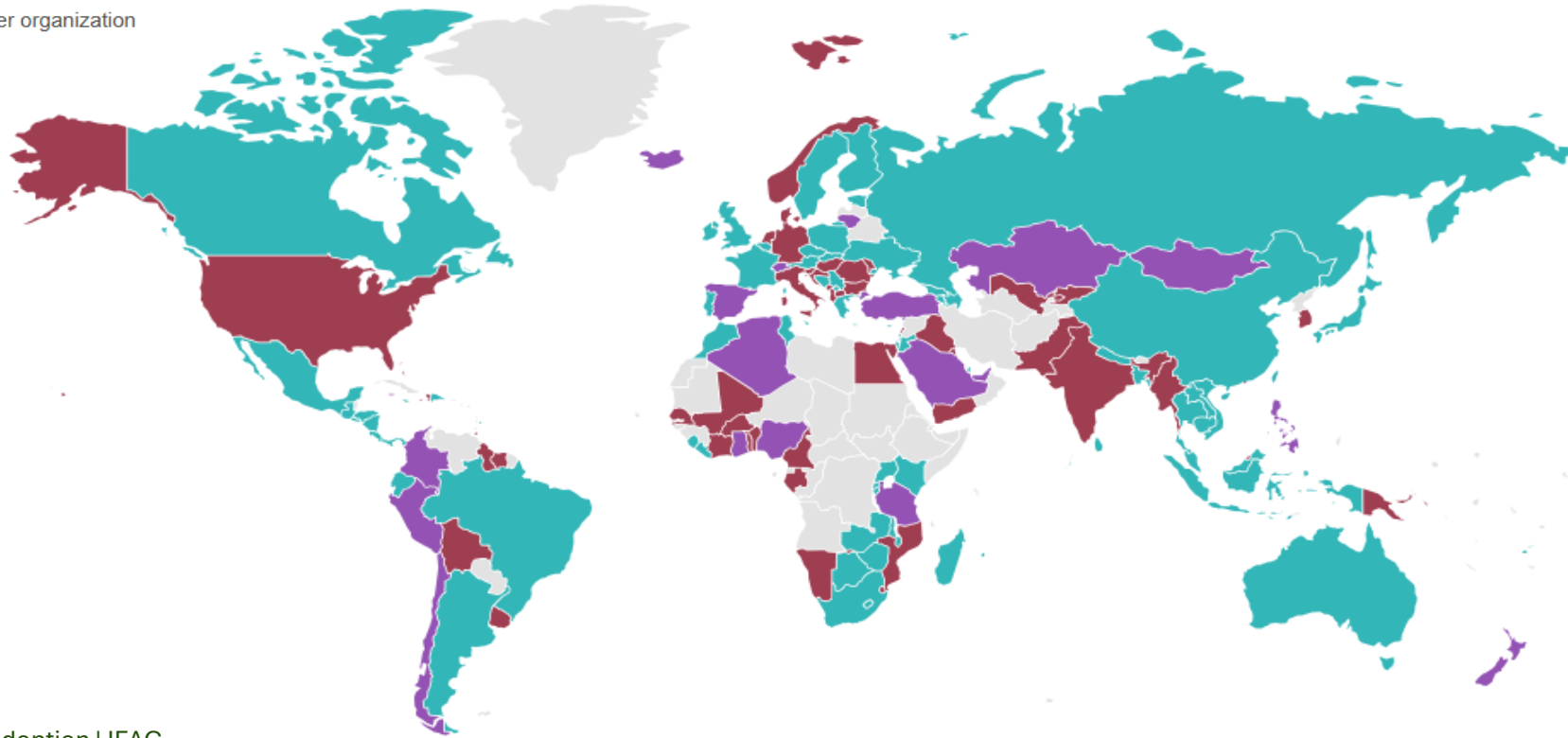
*[International Public Sector Financial Accountability Index 2025](#); central/federal government level. Figures illustrate international prevalence and do not indicate a preferred framework for New Zealand.

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

IPSAS international adoption

■ Adopted ■ Partially Adopted ■ Not Adopted

■ Jurisdictions without an IFAC member organization



Source: [Adoption Status | IFAC](#)

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

Methodology for Assessing Adoption:*

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

User focus – public sector Tier 1 and 2 entities



Primary users

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

Other users

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



Nature of primary user needs

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



Implications for Tier 1 and 2 reporting

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

Tier 1 and Tier 2 public sector key challenges

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

Key Challenges

1. Complexity of requirements

Complex transactions, valuations and group structures can be resource-intensive to report.

2. Mixed group reporting

Different frameworks within groups can require consolidation adjustments and accounting policy alignment.

3. Constrained resources and workforce mobility

Evidence on specialist capability constraints is limited; workforce effects require further testing.

4. Australian comparability

The benefits of closer trans-Tasman alignment are not yet established.

5. Change fatigue and cost of staying current

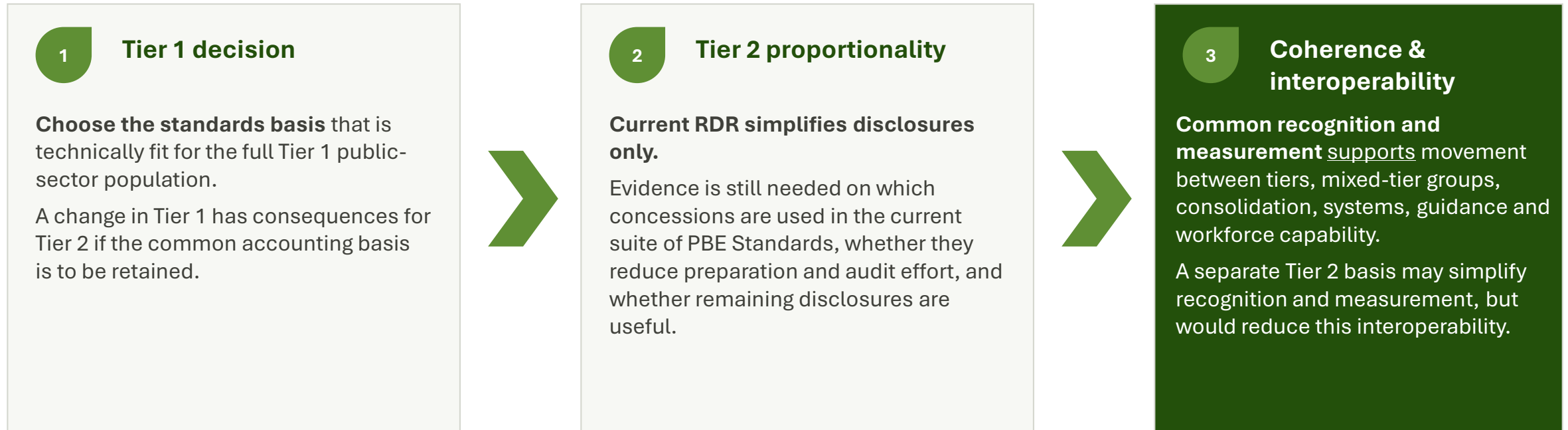
Ongoing standards changes create implementation and maintenance effort across the reporting ecosystem.

6. Accountability and usefulness

User evidence is limited, particularly on whether Tier 2 disclosures remain proportionate and useful.

Framework coherence considerations

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



Central and local government may experience Tier 2 proportionality differently

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

Tier 1 public sector reporting framework options considered

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

Tier 1 public sector framework options



A.

**PBE Standards based on
IPSAS**

*Current framework and
baseline.*



B.

IFRS Accounting Standards

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



C.

Locally Modified Standards

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



D

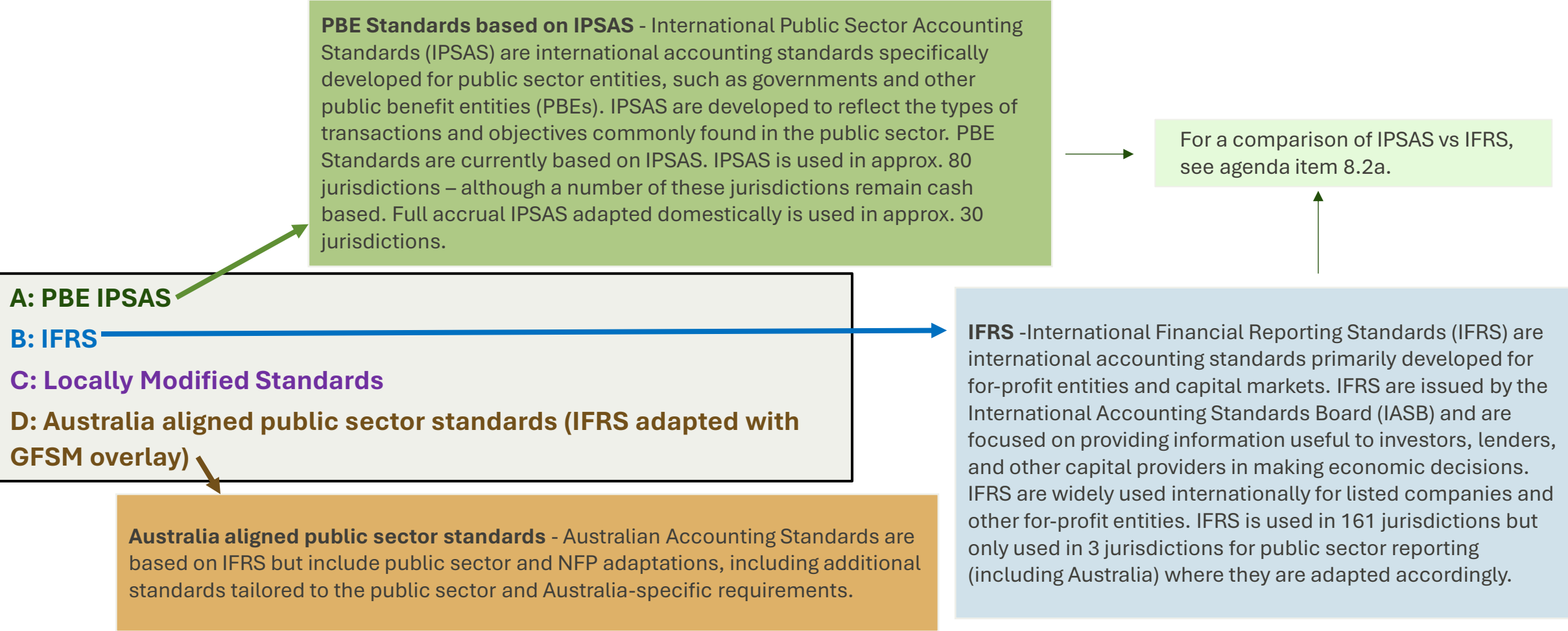
**Australian-adapted IFRS
framework
(PS)**

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

The Government Finance Statistics Manual 2014 (GFSM)

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

Tier 1 public sector framework options



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

Tier 1 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

- 1

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

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

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

Framework-level key criteria used to evaluate each option

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

Tier 2 public sector reporting framework options considered

Tier 2 determines how proportionality should be delivered.

Tier 2 public sector framework options



A.

PBE Standards based on IPSAS with RDR

Current common recognition and measurement basis with reduced disclosures.



B.

IFRS Accounting Standards with RDR

Full IFRS recognition and measurement with reduced disclosures.



C.

IFRS for SMEs

Separate simplified recognition, measurement and disclosure framework.



D.

Locally Modified Standards

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



E.

Australian-adapted IFRS framework (PS) with RDR

Australian-style PS basis IFRS based plus reduced disclosures.

The Government Finance Statistics Manual 2014 (GFSM)

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

Tier 2 public sector framework options explored



PBE Standards based on IPSAS with RDR - an IPSAS based framework that retains full recognition and measurement requirements while allowing reduced disclosure requirements, supporting a balance between comparability with Tier 1 and proportionality for Tier 2 entities.

IFRS with RDR - an IFRS based framework that retains full recognition and measurement requirements while allowing reduced disclosure requirements, supporting a balance between comparability with Tier 1 and proportionality for Tier 2 entities.

A: IPSAS with RDR

B: IFRS with RDR

C: IFRS for SMEs

D: Locally modified (covered during the June XRB meeting)

E: Australia aligned public sector standards with RDR (IFRS adapted with GFSM overlay)

IFRS for SMEs is a simplified, self-contained accounting standard designed for small and medium-sized entities, reducing complexity and disclosure requirements compared with full IFRS Accounting Standards.

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

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

Tier 2 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

- 1

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

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

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

Framework-level key criteria used to evaluate each option

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



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



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

Tier 1 public sector alternative framework key criteria analysis



Tier 1 public sector entities – summary assessment across key criteria

The summary assessment of each framework option against the key criteria and red-amber-green (RAG) analysis is included below to highlight the key drivers of each option. This assessment is preliminary and is presented to prompt discussion — the ratings are staff judgements and are open to challenge.

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



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

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

Option A – PBE Standards based on IPSAS



Pros

- Tailoring allowed to make it fit-for-purpose in NZ
- Ability to provide NZ views and influence
- Convergence with IFRS to the extent suitable for the public sector
- High quality, principle-based framework created for public sector financial reporting.
- Credibility and primary user confidence.
- Framework stability and certainty with changes generally well planned.
- Established domestic workforce capability and some global talent pool
- Globally informed standard-setting process
- No transition costs and market disruptions - established accounting systems.



Cons

- Possible concerns about high cost per entity and complexity of compliance.
- Potential overload of disclosures.
- Not harmonised with Australian.
- Lag in addressing complex or emerging financial issues.
- Talent pool limited with IPSAS seen as more specialised than other global standards (IFRS)
- Resource strain during change.

Option A – PBE Standards based on IPSAS



Criteria	Analysis
Technical fitness	Fulsome framework with IPSAS-based standards providing clear principles for accounting of most complex public-sector transactions. Development of these standards takes into account international public-sector users and best practices. IPSASB standard-setting generally lags IFRS, as projects are initiated after IASB standards are issued.
Simplification	Ability to simplify to make it fit-for-purpose to New Zealand environment. Optional adoption based on New Zealand PBE Policy Approach assessment.
Local relevance	XRB can tailor IPSAS Standards to make it fit-for-purpose in the New Zealand context. However, any adaptation needs to consider maintaining coherence and quality of financial reporting. New Zealand IPSASB Board member supported by XRB staff to influence standard setting. XRB also through consultation and global forums.
International alignment	Internationally recognised framework fully or partially adopted across 86 jurisdictions. Australia: not aligned. This is a well-established framework recognised internationally for public-sector financial reporting.
Ongoing costs	As public-sector transactions evolve globally, public-sector accounting standards also evolve which may result in periodic updates to the standards suite.
Ecosystem	Established IPSAS-based ecosystem supported by preparers, auditors and public-sector institutions. Ongoing training through accounting firms, regulators and educational institutions supports capability within the public-sector reporting environment.
Transition costs	No change required, so no additional costs would arise. Existing systems, processes and workforce capability already support the current IPSAS-based reporting environment in the public sector.

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

Option B – IFRS



Pros

- International comparability and understandability
- High-quality, principles-based framework
- Extensive guidance, training and support provided by IASB.
- Ability to provide NZ views and influence
- Globally informed standard-setting process
- Established domestic workforce capability and global talent pool
- Future Proofing
- Access to IFRS-ready accounting systems
- May have some harmonisation with Australia



Cons

- Not designed for the purpose of public sector financial reporting or accountability objectives (more investor focused)
- Licensing agreement restrictions - mandatory full suite adoption
- Not tailored to NZ circumstances or public sector concepts without heavy workarounds (customisation risks)
- Concerns about high cost per entity and complexity of compliance
- High costs associated with transition and implementation from IPSASB
- May not be comparable with jurisdictions that apply public sector specific financial reporting

Option B – IFRS

Criteria	Analysis
Technical fitness	Fulsome framework with 43 NZ IFRS standards providing clear principles for accounting of most complex transactions. IFRS provides a strong technical framework but is designed for global capital markets, limiting its relevance for public-sector transactions, accountability, and user needs.
Simplification	Simplification option limited: under existing IFRS licensing agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned. While a single IFRS framework could simplify standards, IFRS is complex and would require significant judgement, supplements or work-arounds to address public-sector transactions.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. However, IFRS is not designed with the public sector in mind and therefore may require work-arounds to make it public sector appropriate.
International alignment	IFRS is internationally recognised - used in 161 jurisdictions (required or permitted for publicly accountable entities) and therefore would improve comparability with private-sector reporting on a global scale, however, it may reduce alignment and comparability with other jurisdictions that apply public-sector reporting frameworks. Closer alignment with Australia's approach which is IFRS with public sector supplements and work-arounds.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes however these do so without keeping public sector transactions in mind.
Ecosystem	IFRS adoption would significantly disrupt the current ecosystem and would requiring major system changes (technology) to comply with IFRS requirements. However, New Zealand has an established IFRS-based ecosystem supported by preparers and auditors in the for-profit space. Training would be required which can occur through accounting firms, regulators and educational institutions who has the capability.
Transition costs	Significant cost and changes will be required. Existing software and systems would need to undergo changes, although IFRS systems may be more readily available given its prominence in New Zealand for the for-profit sectors.

Option C – Locally modified standards



Pros

- Full control and ownership over standard setting.
- Tailoring to NZ circumstances and needs (scope and complexity).
- Greater responsiveness to local issues.
- Alignment with NZ regulatory and policy settings.



Cons

- Limited XRB capacity and lack of global technical reach would impede the development of credible, internationally relevant local standards
- Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment
- Risk of unintended consequences such as lack of coherence and complexity within the suite
- Loss of international comparability and credibility, likely to result in loss of capital investment
- High development and maintenance costs
- Workforce capability and mobility risk
- Loss of harmonisation with Australia
- Absence of readily available IT software

Option C – Locally modified standards



Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards capable of dealing with most complex public sector transactions such as non-exchange fundings and without duplicating existing public sector standard efforts. Standards can be tailored to New Zealand public sector users, but this may not meet the needs of international stakeholders or other global users.
Simplification	Simplification: elements of other international public sector frameworks can be leveraged from, and adapted to reduce complexity, while tailoring requirements to New Zealand public sector circumstances.
Local relevance	Standards could be tailored to New Zealand public-sector policy settings and reporting needs. However, this may reduce the relevance of financial reporting for international stakeholders and reduce New Zealand’s influence in global public-sector standard-setting.
International alignment	US GAAP is internationally recognised but used in only one primary jurisdiction (the US), though it may be permitted for SEC issuers in some other jurisdictions. It provides access to the world’s largest capital market. Australia: not aligned
Ongoing costs	Changes to locally modified standards could be managed domestically, but there is a risk that emerging global developments or complex issues are not addressed in a timely way due to limited local resources.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be reduced as the current talent pipeline is largely aligned with IPSAS-based standards.
Transition costs	Significant transition costs would arise, including policy redesign, workforce retraining and changes to systems and processes. Existing software and accounting systems are not designed for bespoke New Zealand standards.

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

Option D – Australian-adapted IFRS framework (PS)



Pros

- Comparability and alignment with Australian public sector entities
- Potential workforce mobility and shared capability with Australia
- Access to the globally recognised IFRS framework and internationally familiar accounting language
- Access to IFRS-ready accounting systems, guidance, and support materials
- IFRS reporting requirements are developed through a globally informed IASB standard-setting process.



Cons

- Comparability and alignment with jurisdictions other than Australia will be limited.
- Risk that New Zealand specific public sector financial reporting and accountability requirements won't be addressed
- Significant transition costs and implementation disruptions from moving away from IPSAS-based standards
- Need for ongoing monitoring and development of public sector adaptations to IFRS standards
- Licensing agreement restrictions – mandatory adoption of the full IFRS suite
- Resource strain in ecosystem during transition and implementation
- Concerns about high cost per entity and complexity of compliance.

Option D – Australian-adapted IFRS framework (PS)

Criteria	Analysis
Technical fitness	Australia aligned PS reporting provides a strong IFRS based recognition and measurement framework capable of dealing with complex transactions. Australian public-sector supplements may address most public sector transactions and accountability requirements, but this may not be specifically focused on the New Zealand user needs and environment.
Simplification	Simplification options: limited as the underlying IFRS recognition and measurement requirements must still be followed due to licensing agreement. Public-sector supplements may clarify certain public sector transactions, but overall complexity of the IFRS framework remains as is.
Local relevance	Public-sector supplements allow the framework to better reflect government and public-sector transactions while maintaining connection to the global IFRS system. New Zealand could still contribute views through international standard-setting processes.
International alignment	IFRS with PS adaptation would not be recognised internationally and is unlikely used outside of New Zealand, reducing comparability with other public sector frameworks. Australia: aligned.
Ongoing costs	IFRS standards evolve regularly as global transactions change. Public-sector supplements would also need ongoing maintenance which may increase the complexity of keeping the framework coherent and aligned with international developments. XRB could potentially work with and leverage Australia's input in instances of IFRS changes to maintain up-to-date supplements for the public sector.
Ecosystem	Australia aligned PS reporting would significantly disrupt the current ecosystem and would requiring major system changes (technology) to comply with requirements. However, New Zealand has an established IFRS-based ecosystem supported by preparers and auditors in the for-profit space. Training would be required which can occur through accounting firms, regulators and educational institutions who has the capability. Alignment with Australia would support workforce mobility and continued access to a global IFRS talent pool.
Transition costs	Transition would involve costs as entities move from IPSAS-based standards to an IFRS-based framework with supplements. Some retraining within public sector only may be required, system updates and changes to accounting policies would likely be required.

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

Tier 2 public sector alternative framework key criteria analysis



Tier 2 public sector entities – summary assessment across key criteria

The summary assessment of each framework option against the key criteria and red-amber-green (RAG) analysis is included below to highlight the key drivers of each option. **This assessment is preliminary and is presented to prompt discussion** — the ratings are staff judgements and are open to challenge.

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

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

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

Option A – PBE Standards based on IPSAS with RDR



Pros

- Tailoring allowed to make it fit-for-purpose in NZ
- Ability to provide NZ views and influence
- Convergence with IFRS to the extent suitable for the public sector
- NZASB's ability and control to consider proportionality through reduced disclosure burden
- High quality, principle-based framework created for public sector financial reporting.
- Credibility and primary user confidence.
- Framework stability and certainty with changes generally well planned.
- Established domestic workforce capability and some global talent pool
- Globally informed standard-setting process
- No transition costs and market disruptions - established accounting systems.



Cons

- Possible concerns about high cost per entity and complexity of compliance.
- Potential overload of disclosures.
- Not harmonised with Australia
- Lag in addressing complex or emerging financial issues.
- Talent pool limited with IPSAS seen as more specialised than other global standards (IFRS)
- Resource strain during change

Option A – PBE Standards based on IPSAS with RDR

Criteria	Analysis
Technical fitness	Fulsome framework with IPSAS-based standards providing clear principles for accounting of most complex public-sector transactions. Development of these standards takes into account international public-sector users and best practices, while RDR supports proportionality for Tier 2 entities. IPSASB standard-setting generally lags IFRS, as projects are initiated after IASB standards are issued.
Simplification	Ability to simplify to make it fit-for-purpose to New Zealand environment. Optional adoption based on New Zealand PBE Policy Approach assessment. RDR supports proportionality for Tier 2 entities.
Local relevance	XRB can tailor IPSAS Standards to make it fit-for-purpose in the New Zealand context. However, any adaptation needs to consider maintaining coherence and quality of financial reporting. New Zealand IPSASB Board member supported by XRB staff to influence standard setting. XRB also through consultation and global forums.
International alignment	Internationally recognised framework fully or partially adopted across 86 jurisdictions. Australia: not aligned. This is a well-established framework recognised internationally for public-sector financial reporting.
Ongoing costs	As public-sector transactions evolve globally, public-sector accounting standards also evolve which may result in periodic updates to the standards suite.
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Retaining IPSASB Standards with RDR supports workforce interoperability as there is a reduced need for separate training and capability streams across Tier 1 and Tier 2 public sector entities.
Ecosystem	Established IPSAS-based ecosystem supported by preparers, auditors and public-sector institutions. Ongoing training through accounting firms, regulators and educational institutions supports capability within the public-sector reporting environment.
Transition costs	No change required, so no additional costs would arise. Existing systems, processes and workforce capability already support the current IPSAS-based reporting environment in the public sector.

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

Option B – IFRS with RDR



Pros

- International comparability and understandability.
- High-quality, principles-based framework.
- Extensive guidance, training and support provided by IASB.
- Ability to provide NZ views and influence
- Globally informed standard-setting process.
- Established domestic workforce capability and global talent pool
- Future Proofing.
- Access to IFRS-ready accounting systems



Cons

- Not designed for the purpose of public sector financial reporting or accountability objectives (more investor focused).
- Licensing agreements - mandatory full suite adoption.
- Not tailored to NZ circumstances or public sector concepts without heavy workarounds (customisation risks).
- Concerns about high cost per entity and complexity of compliance.
- High costs associated with transition and implementation from IPSASB.
- May not be comparable with jurisdictions that apply public sector specific financial reporting.
- Recognition and measurement requirements may exceed user needs

Option B – IFRS with RDR

Criteria	Analysis
Technical fitness	Fulsome framework with 43 NZ IFRS-based standards providing clear principles for accounting of most complex transactions. IFRS provides a strong technical framework but is designed for global capital markets, limiting its relevance for public-sector transactions, accountability, and user needs. Development of these standards takes into account global users and best practices.
Simplification	Simplification option limited: under existing IFRS agreement there is a mandatory full-suite adoption and recognition, and measurement requirements needs to be aligned. While a single IFRS framework could simplify standards, IFRS is complex and would require significant judgement, supplements or work-arounds to address public-sector transactions. Reduced disclosures through RDR could remain an option to support proportionality for Tier 2 entities.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. However, IFRS is not designed with the public sector in mind and therefore may require significant judgements and work-arounds to make it public sector appropriate.
International alignment	IFRS is internationally recognised - used in 161 jurisdictions (required or permitted for publicly accountable entities) and therefore would improve comparability with private-sector reporting on a global scale, however, it may reduce alignment and comparability with other jurisdictions that apply public-sector reporting frameworks. Closer alignment with Australia's approach which is IFRS with public sector supplements and work-arounds.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes however these do so without keeping public sector transactions in mind.
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles. Does not support workforce interoperability as separate training will be required to operate between the IPSAS-based Tier 1 public sector framework and an IFRS-based Tier 2 framework.
Ecosystem	IFRS adoption would significantly disrupt the current ecosystem and would requiring major system changes (technology) to comply with IFRS requirements. However, New Zealand has an established IFRS-based ecosystem supported by preparers and auditors in the for-profit space. Training would be required which can occur through accounting firms, regulators and educational institutions who has the capability.
Transition costs	Significant cost and changes will be required. Existing software and systems would need to undergo changes, although IFRS systems may be more readily available given its prominence in New Zealand for the for-profit sectors.

Option C – IFRS for SMEs



Pros

- Substantially reduced complexity balancing cost-benefit for smaller entities
- Stand-alone, self-contained standard
- Reduced judgement and estimation burden
- Internationally recognised and applied
- Lower ongoing change (5-year revision cycle) and implementation burden



Cons

- Not designed for public sector or public sector accountability and service outcomes objectives.
- Licensing agreements - cannot make New Zealand specific adaptations and mandatory full suite adoption.
- Materially different recognition and measurement requirements
- Mixed-tier group consolidation complexity
- Reduced comparability with NZ Tier 1 PS entities
- Limited suitability for larger or more complex Tier 2 entities
- Risk of misalignment with user expectations
- Reduced harmonisation with Australia
- Transition costs and system changes
- ASF complexity and fragmentation
- Limited NZ workforce capability and expertise
- Limits workforce mobility

Option C – IFRS for SMEs

Criteria	Analysis
Technical fitness	Fulsome framework providing simplified recognition and measurement requirements for accounting of most transactions. Development of these standards takes into account global users and best practices. IFRS provides a strong technical framework but is designed for for-profit entities, limiting its relevance for public-sector transactions, accountability considerations, and user needs. This may improve proportionality for some Tier 2 entities but may not be sufficient for more complex public-sector entities.
Simplification	Simplified recognition and measurement requirements. Further simplification option limited - under existing IFRS licensing agreement there is a mandatory full-suite adoption. Would require significant judgement, supplements or work-arounds to address public-sector transactions and accountability requirements.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. Public sector supplements and work-arounds would be required to make it fit-for-purpose in the NZ context.
International alignment	Internationally recognised as required or permitted in 85 jurisdictions. However, the framework is not commonly used as the basis for public sector financial reporting. Australia: not aligned.
Ongoing costs	IFRS for SMEs is updated infrequently through periodic comprehensive reviews (6–10-year intervals) rather than continuous amendments, which indicates relatively low ongoing costs and change burden compared with full IPSAS. However, public sector supplements would require ongoing monitoring and maintenance to ensure they are fit for purpose.
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles. Does not support workforce interoperability as separate training will be required due to the use of a different accounting framework from Tier 1 public sector entities.
Ecosystem	IFRS for SMEs adoption would significantly disrupt the current ecosystem, requiring retraining and system changes. It would limit workforce mobility given the current talent pipeline is aligned with IPSASB Standards. This will result in more fragmentation across the Tiers and sectors as these will not be aligned with other reporting principles.
Transition costs	Cost and changes will be required. Existing software and systems implemented may not support the IFRS for SMEs environment. The XRB and wider limited New Zealand workforce do not currently have sufficient IFRS for SMEs expertise to support adoption.

Option D - Locally modified standards



Pros

- Full control and ownership over standard setting.
- Tailoring to NZ circumstances and needs (scope and complexity).
- Greater responsiveness to local issues.
- Alignment with NZ regulatory and policy settings.



Cons

- Limited XRB capacity and lack of global technical reach would impede the development of credible, internationally relevant local standards
- Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment
- Risk of unintended consequences such as lack of coherence and complexity within the suite
- Loss of international comparability and credibility, likely to result in loss of capital investment
- High development and maintenance costs
- Workforce capability and mobility risk
- Loss of harmonisation with Aus
- Absence of readily available IT software

Option D - Locally modified standards

Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards capable of dealing with most complex public sector transactions such as non-exchange fundings and without duplicating existing public sector standard efforts. Standards can be tailored to New Zealand public sector users, but this may not meet the needs of international stakeholders or other global users.
Simplification	Simplification: elements of other international public sector frameworks can be leveraged from, and adapted to reduce complexity, while tailoring requirements to New Zealand public sector circumstances.
Local relevance	Standards could be tailored to New Zealand public-sector policy settings and reporting needs. However, this may reduce the relevance of financial reporting for international stakeholders and reduce New Zealand’s influence in global public-sector standard-setting.
International alignment	Locally modified standards would not be recognised internationally and would unlikely be used outside New Zealand, reducing comparability with other public sector frameworks. Australia: not aligned
Ongoing costs	Changes to locally modified standards could be managed domestically, but there is a risk that emerging global developments or complex issues are not addressed in a timely way due to limited local resources.
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required due to the development of a distinct domestic framework separate from the IPSAS-based Tier 1 public sector framework and / or IFRS framework.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be reduced as the current talent pipeline is largely aligned with IPSAS-based standards.
Transition costs	Significant transition costs would arise, including policy redesign, workforce retraining and changes to systems and processes. Existing software and accounting systems are not designed for bespoke New Zealand standards.

Option E - Australian-adapted IFRS framework (PS) with RDR



Pros

- Full control and ownership over standard setting
- Tailoring to NZ circumstances and needs (scope and complexity)
- Greater responsiveness to local issues
- Alignment with NZ regulatory and policy settings



Cons

- Comparability and alignment with jurisdictions other than Australia will be limited
- Risk that New Zealand specific public sector financial reporting and accountability requirements won't be addressed
- Significant transition costs and implementation disruptions from moving away from IPSAS-based standards
- Need for ongoing monitoring and development of public sector adaptations to IFRS standards
- Licensing agreements – mandatory adoption of the full IFRS suite
- Resource strain in ecosystem during transition and implementation
- Concerns about high cost per entity and complexity of compliance

Option E - Australian-adapted IFRS framework (PS) with RDR



Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards capable of dealing with most complex public sector transactions such as non-exchange fundings and without duplicating existing public sector standard efforts. Standards can be tailored to New Zealand public sector users, but this may not meet the needs of international stakeholders or other global users.
Simplification	Simplification: elements of other international public sector frameworks can be leveraged from, and adapted to reduce complexity, while tailoring requirements to New Zealand public sector circumstances.
Local relevance	Standards could be tailored to New Zealand public-sector policy settings and reporting needs. However, this may reduce the relevance of financial reporting for international stakeholders and reduce New Zealand's influence in global public-sector standard-setting.
International alignment	IFRS with PS adaptation and RDR would not be recognised internationally and is unlikely used outside of New Zealand, reducing comparability with other public sector frameworks. Australia: recognition and measurement of public sector adaptations will be aligned, but RDR may not be aligned.
Ongoing costs	IFRS standards evolve regularly as global transactions change. Public-sector supplements would also need ongoing maintenance which may increase the complexity of keeping the framework coherent and aligned with international developments. XRB could potentially work with and leverage Australia's input in instances of IFRS changes to maintain up-to-date supplements for the public sector.
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required due to the development of a distinct domestic framework separate from the IPSAS-based Tier 1 public sector framework and / or IFRS framework.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be reduced as the current talent pipeline is largely aligned with IPSAS-based standards.
Transition costs	Significant transition costs would arise, including policy redesign, workforce retraining and changes to systems and processes. Existing software and accounting systems are not designed for bespoke New Zealand standards.