

Tier 1 For-profit

Detail supporting the options assessment



Locally modified standards



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

1 PURPOSE OF ASF

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

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

2 TO BE CONSIDERED ACROSS THE TIERS AND STANDARD FRAMEWORKS

- ✓ Proportionality
- ✓ Optionality

subject to ministerial approval

3 FOR PROFIT SECTOR



4 PUBLIC SECTOR



5 NOT FOR PROFIT SECTOR



6 SECTORS SPLIT (INCLUDING SECTOR NEUTRALITY)



7 TIERS



8 THRESHOLDS



9 SPECIAL PURPOSE REPORTING



10 VOLUNTARY OPT IN (I.E. NOT MANDATED ENTITIES)



11 XRB A1 – PUBLIC ACCOUNTABLE DEFINITION



12 MIXED GROUPS



13 ALIGNMENT BETWEEN IFRS AND IPSAS



14 AUSTRALIA HARMONISATION / ALIGNMENT CONSIDERATIONS



15 LOCALLY MODIFIED STANDARDS, APPROACH AND COST IMPLICATIONS



Ministerial approval may be required for variations in the ASF

Locally modified standards – what it means

Staff have undertaken a preliminary assessment of how such a framework could be developed. The following slides summarise the key characteristics, implications, and indicative approach to inform the Tier 1 and Tier 2 framework discussion.

Why locally modified?

Staff concluded that locally developed standards should start from an existing international framework and make targeted NZ modifications — offering local relevance but at significant resource and comparability cost. Therefore this will be referred to as ‘locally modified standards’.



What locally modified means

- Ability to change recognition, measurement and disclosure requirements
- Adopting another jurisdiction's standards (e.g., UK / Australia / etc.) as a base
- Modifying for NZ relevance
- Not building from scratch – source standard provide the structural foundation



Practical impact and considerations

- Higher initial costs
- Ongoing maintenance costs
- Requirements may not address issues for all stakeholders even if locally developed
- Loss of international coherence and global guidance access
- Double handling of technical work across frameworks
- Longer development timeframes

Key point

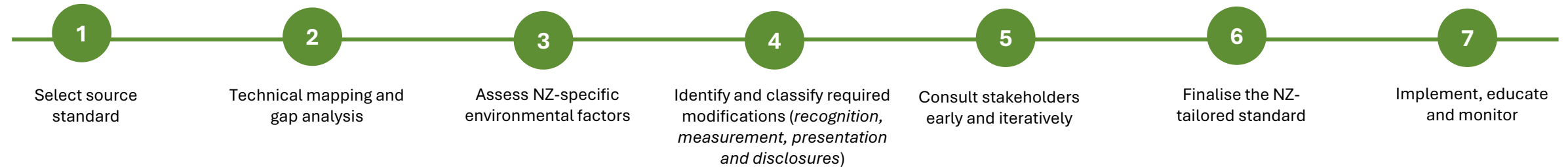
This option would materially expand XRB standard-setting activity – requiring additional resources, not reallocation. Any framework changes would require Ministerial approval.

Locally modified standards

Locally modified standards offer domestic flexibility but carry significant resource and comparability trade-offs.

A structured seven-step approach underpins locally modified standards, but clear benefits must be weighed against trade-offs spanning comparability, cost, and systemic risk.

Indicative approach to developing locally modified standards, after assessing the New Zealand specific environmental factors



✓ Benefits

- ✓ Flexibility to domestic user needs
- ✓ Tailored to NZ economic characteristics
- ✓ Aligned with NZ legal/institutional environment
- ✓ Enhanced sovereignty

— Cost

- Reduced international comparability
- Impact on capital flows to New Zealand
- Higher development and maintenance costs
- Systems and infrastructure challenges
- Slower adoption of global best practice
- Risk of over-tailoring