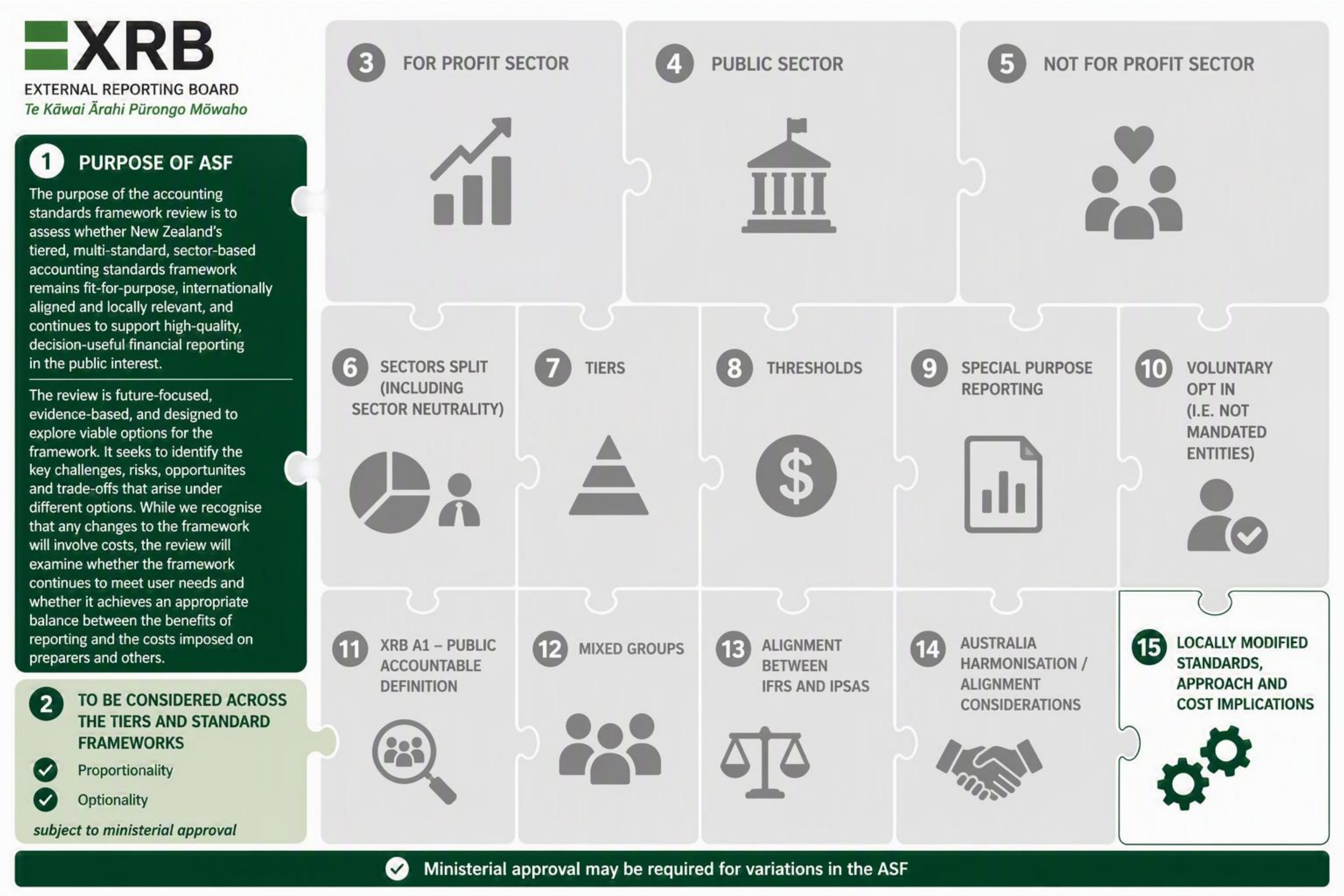
Tier 1 For-profit

Detail supporting the options assessment

Locally modified standards



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

1. Select source standard
2. Technical mapping and gap analysis
3. Assess NZ-specific environmental factors
4. Identify and classify required modifications (*recognition, measurement, presentation and disclosures*)
5. Consult stakeholders early and iteratively
6. Finalise the NZ-tailored standard
7. Implement, educate and monitor

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