Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	**Review of the Accounting Standards Framework (ASF) – Possible approach to the development of locally modified standards**
Date:	24 July 2026
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☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this agenda paper is to seek the Board's feedback on the approach to the development of locally modified standards, in the context of the likely implications for XRB capability, resourcing, delivery timeframes and stakeholder expectations as part of the review of the Accounting Standards Framework (ASF).

Recommendations

2. We recommend the Board:

   (a) **PROVIDE FEEDBACK** on whether the potential impacts of using locally modifying standards, including the advantages and disadvantages, is acceptable; and

   (b) **AGREE** that locally modified standards should remain an option for inclusion in the discussion paper.

Approach to locally modified standards

3. We have explored developing financial reporting standards locally within New Zealand rather than aligning with internationally developed standards, as a possible option in the ASF review. We have considered the best approach for this option and concluded that this would not mean developing standards "from a blank page".

4. Instead, the XRB could use elements from established frameworks from another jurisdiction, such as the United Kingdom, Australia, or another jurisdiction as a starting point (subject to potential copyright limitations) and make targeted modifications where needed for the New Zealand context. Therefore, this will be referred to as **locally modified standards**.

5. The key question is how the potential benefits of greater local relevance should be weighed against the implications of moving further away from international alignment. The implications are likely to differ across tiers and sectors. For example, for Tier 1 for-profit entities, international credibility and comparability remain particularly important to support effective New Zealand capital markets and meet global users' needs. This will affect whether locally modified standards are appropriate for those entities and the viability of the option.

6. We therefore propose to describe the option at a high level in the public discussion paper, rather than develop a detailed technical design at this stage. This would support a clear and consistent understanding of what the option could mean in practice and whether it would result in higher quality financial reporting in New Zealand.

7. We consider it important that this option be presented publicly as an alternative to internationally developed frameworks where recognition, measurement and presentation requirements cannot be reduced or modified (such as Tier 1 for-profit entities). This will mean that stakeholders can provide feedback on whether internationally developed standards or locally modified standards are more fit-for-purpose for New Zealand.

Potential advantages of locally modified standards

Better flexibility for domestic user needs	• A locally modified approach could allow greater flexibility to respond to New Zealand user needs. This approach would include where targeted simplifications or additional disclosures are considered appropriate, which could lower costs within the ecosystem.
Tailored to New Zealand's economic characteristics	• Locally modified standards could better reflect the size, structure and reporting context of New Zealand entities. Such entities include small and medium-sized entities, cooperatives and public benefit entities. This approach could lower costs within the ecosystem.
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 modifications could increase stakeholder input into standard setting and may support confidence that standards reflect New Zealand circumstances and priorities.

Potential disadvantages of locally modified standards

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 specialised standard setting resources.
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 activities across multiple jurisdictions. A locally modified approach may reduce the extent to which New Zealand can rely directly on that infrastructure.

Impact of locally modified standards on the XRB

8. Locally modified standards could give the XRB greater ability to tailor reporting requirements to domestic needs, but would materially expand the XRB's role in developing, maintaining and supporting standards.

9. International alignment currently allows the XRB and New Zealand stakeholders to refer to and use research, due processes, international consultations, guidance and implementation infrastructure of international standard setters and other global entities who use those international standards. Moving further away from that model would therefore have implications for XRB capability, resourcing and delivery timeframes.

10. Our initial analysis of the likely implications for XRB resources is outlined below. These implications do not rule out exploring this option for the ASF review but rather provide important context for the Board's consideration.

Area	Implications to consider
Initial development and modification costs	• Higher upfront costs and slower implementation due to adapting, consulting on, and redrafting standards for New Zealand, requiring additional technical and stakeholder engagement resources.
Ongoing maintenance	• Continuous monitoring and updating would be needed to keep local standards aligned with reporting developments and internally consistent.

Locally modified requirements may not meet all user needs	• Local tailoring may improve relevance for some stakeholders, but trade-offs would remain. Application issues are still likely to arise and could increase demand for support and guidance. *(Our experience with the Tier 3 and Tier 4 PBE Standards indicates that, even where standards are developed locally, application issues and stakeholder tensions can still arise.)*
Loss of international coherence, guidance and support	• Divergence from international standards would reduce access to international guidance and increase reliance on XRB-developed support and interpretation.
Double handling	• The XRB would need to monitor international standards while also maintaining local requirements, increasing standard setting effort and complexity.
Delivery timeliness	• Assessing and adapting international standards would delay the introduction of updated requirements and could leave New Zealand behind international developments.

11. Overall, having locally modified standards[1] would require additional capability and resources at the XRB, which would require Ministerial approval. This is unlikely to be achieved only by way of reallocating existing resources, particularly if the XRB is expected to maintain delivery timeliness, quality and stakeholder support across the wider standards programme.

12. We consider these additional costs would be justified if locally modified standards deliver net benefits to New Zealand by improving the quality of financial reporting and reducing overall costs across the financial reporting ecosystem. In those circumstances, the additional expenditure would represent an appropriate use of Government funding. Accordingly, we consider this option remains a valid alternative to internationally developed standards and warrants inclusion in the public discussion paper.

Questions for the Board:

Q1. Does the Board have any **FEEDBACK** on whether the impact of locally modifying standards, including the cost, capability, resourcing and timing implications is acceptable?

Q2. Does the Board **AGREE** that locally modified standards should remain an option in the discussion paper?

[1] Implementing locally modified standards would require Ministerial approval for a formal variation to the ASF strategy under sections 31 and 32 of the Financial Reporting Act 2013 (FRA). Any approval process would need to address the related resourcing and funding implications, consultation, and alignment with the financial reporting strategy. FRA section 31 and 32

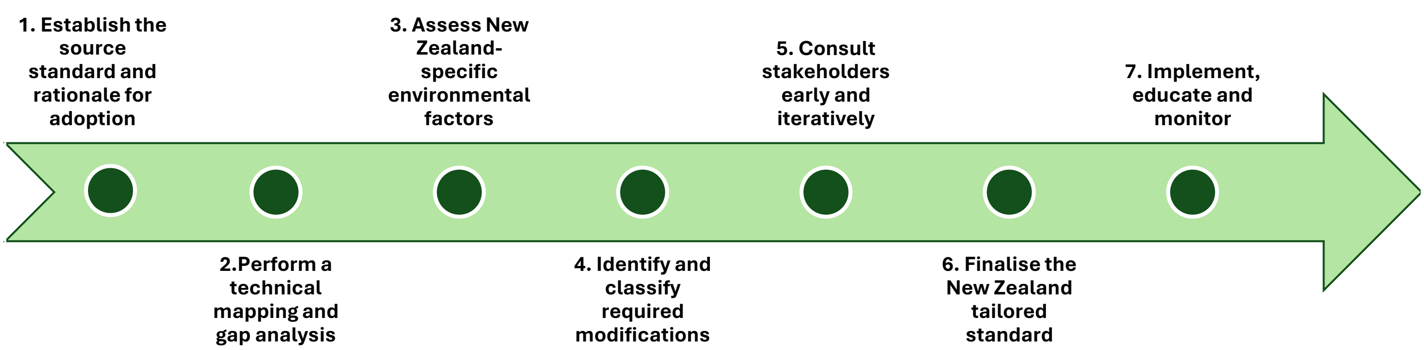
Indicative approach for discussion paper

13. We have developed an indicative outline of what a locally modified standards approach could involve, after assessing the New Zealand-specific environmental factors and user needs. This is included in Appendix 7 within the Tier 1 for-profit entities paper and Appendix 4 within the Tier 2 for-profit entities paper.

14. The outline is included to help test whether the option can be explained clearly in the public discussion paper and is not intended to be a detailed technical design. We are also proposing to include benefits and costs into the discussion paper to help the public assess this option more effectively.

15. This outline is not intended to be the final wording for the discussion paper, but draft wording which will be refined over time to ensure it accurately reflects a practical and realistic process which could be followed.

Indicative steps to follow when developing this framework



16. After assessing NZ user need and requirements broadly, the process would:

   1) **Establish the source standard and rationale for adoption –** Identify the most appropriate foreign standard (e.g. UK FRS 102 / Australian standards / other jurisdictions standards) and document why it is the best starting point for New Zealand. Prioritise technical quality and NZ user needs for the specific transaction and relevant sector.

   2) **Perform a technical mapping and gap analysis –** Compare the source standard with existing New Zealand requirements. Identify conceptual, legal, and operational differences, including terminology and references that do not align with New Zealand's framework.

   3) **Assess New Zealand-specific environmental factors –** Evaluate the New Zealand context—legislation, public sector structure, Māori entities, market size, user needs, and reporting tiers—to determine where tailoring is necessary.

   4) **Identify and classify required modifications –** Classify changes as editorial, scope-related, recognition/measurement adjustments, disclosure changes, or transitional provisions.

5) **Consult stakeholders early and iteratively –** Consult preparers, auditors, regulators, users, and sector-specific groups. Use exposure drafts, roundtables, and field testing to ensure practicality and relevance.

6) **Finalise the New Zealand tailored standard –** Incorporate feedback, ensure internal consistency with the NZ framework, and complete due-process steps, and publishing a Basis for Conclusions explaining the rationale for all modifications.

7) **Implement, educate and monitor –** Provide guidance and education, monitor early application issues, and schedule a post-implementation review to ensure the standard remains fit for purpose.

17. For indicative wording on the approach, refer to the Appendix 7 within the Tier 1 for-profit entities paper and Appendix 4 within the Tier 2 for-profit entities paper. The Board's feedback on the indicative wording on the approach will be sought as part of the discussion on the Tier 1 for-profit entities paper and the Tier 2 for-profit entities paper.

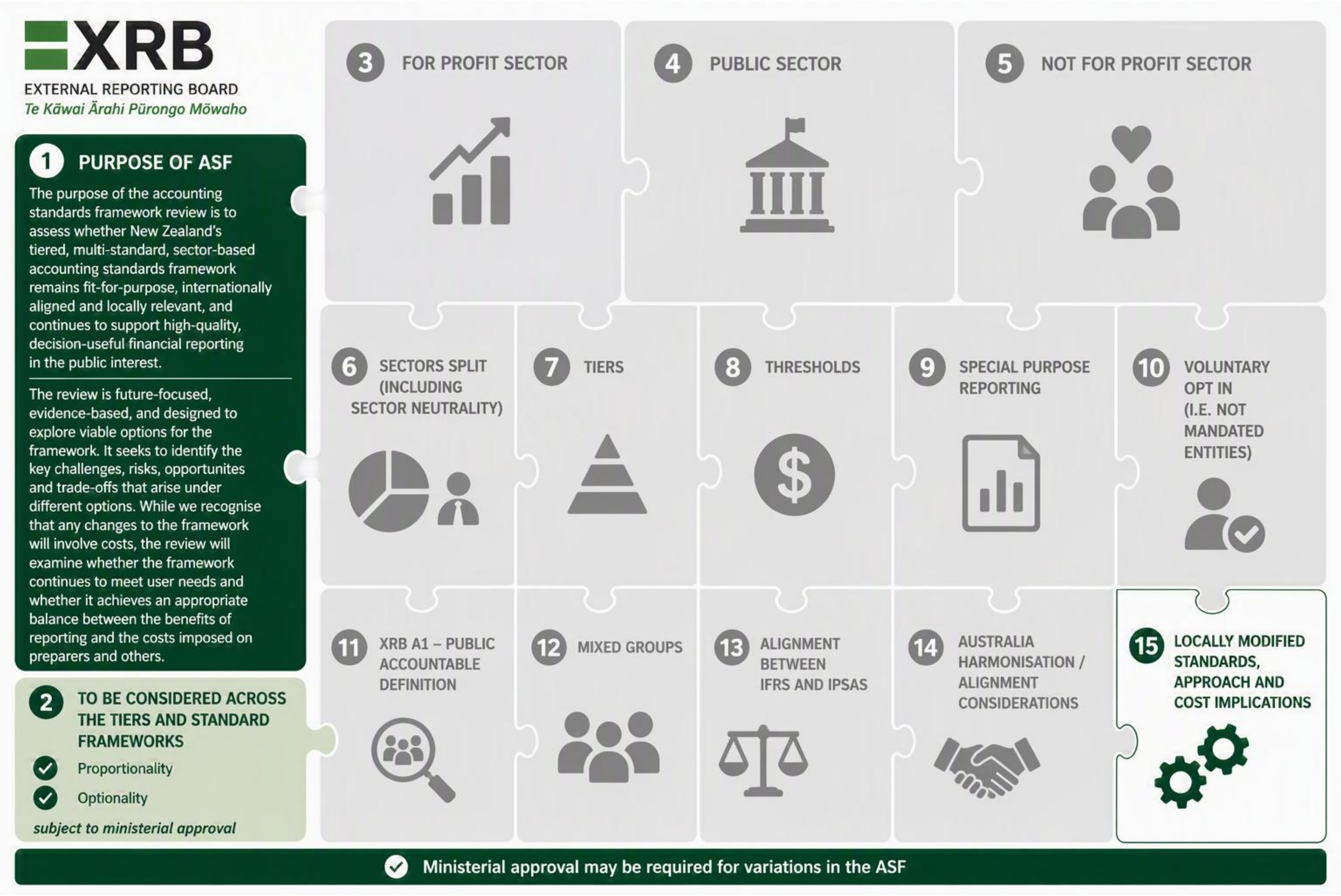
Appendix 1: Overview Slides

Note:
For an overview of the information within this paper, please refer to slides beginning on the following page.

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