Please note: This packs contains papers relating to the XRB's Accounting Standards Framework review. The content of the future Discussion Paper, including in relation to framework options to be explored, is still subject to finalisation and may differ to the content of the papers in this pack.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Accounting Standards Board

MEETING PACK

for

NZASB meeting - 130 - Public

Thursday, 6 August 2026

9:00 am (NZST)

Held at:

Virtual

Virtual

Generated: 2026-07-24 17:06:47

INDEX

AGENDA

NZASB MEETING - 130 - PUBLIC

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Name:	New Zealand Accounting Standards Board
Date:	Thursday, 6 August 2026
Time:	9:00 am to 4:45 pm (NZST)
Location:	Virtual, Virtual
Guests/Notes:	Attendees: Carolyn Cordery (Committee Chair), Bede Carran, David Pacey, Kathryn Waugh, Keith Kendall, Lara Truman, Nicky Haslam, Richard Perry, Sheree Ryan, Alex Stainer, Carly Bery, Gali Slyuzberg, Leana van Heerden, Michelle Lombaard, Nimash Bhikha, Raveen Kaur, Tereza Bublikova, Wendy Venter

1. Non-public session

1.1 Non-public session 9:00 am (15 min)

2. Non-public session

2.1 Non-public session 9:15 am (45 min)

3. Non-public session

3.1 Non-public session 10:00 am (70 min)

4. Break

4.1 Break 11:10 am (15 min)

5. Non-public session

5.1 Non-public session 11:25 am (25 min)

6. Review of the Accounting Standards Framework - Public Session 1

6.1 Review of the Accounting Standards Framework - Public Session 1 11:50 am (95 min)

For Discussion

Overview, sectors, mixed groups, public accountability, special purpose reporting, locally modified standards.

Supporting Documents:

6.1.a	Board memo - Background and context with appendices.pdf	6
6.1.b	Board memo - Sectors and appendices.pdf	38
6.1.c	Board memo - Mixed groups and appendices.pdf	85
6.1.d	Board Memo - ASF Definition of Public Accountability.pdf	108
6.1.e	Board memo - Special Purpose Financial Reporting (with slides) (1).pdf	123
6.1.f	Board Memo - ASF Locally Modified Standards (1).pdf	138

7. Lunch

7.1 Lunch

1:25 pm (30 min)

8. Review of the Accounting Standards Framework - Public Session 2

8.1 Review of the Accounting Standards Framework - Public Session 2

1:55 pm (90 min)

For Discussion

For-profit entities, Tier 1 for-profit entities, Tier 2 for-profit entities, and for-profit entities opting into the ASF.

Supporting Documents:

8.1.a	Board Memo - ASF For-Profit Sector Overarching Paper.pdf	149
8.1.b	Board Memo - ASF Tier 1 For-Profit Entities.pdf	165
8.1.c	Board Memo - ASF Tier 2 For-Profit Entities.pdf	222
8.1.d	Board Memo - ASF Tier 2 Entities Opting In.pdf	280

8.2 Non-public session

3:25 pm (5 min)

9. Amendments to the Fair Value Option (NZ IAS 28)

9.1 Amendments to the Fair Value Option (NZ IAS 28)

3:30 pm (15 min)

For Decision

Approval of amending standard

Supporting Documents:

9.1.a	Board memo –Amendments to the Fair Value Option (NZ IAS 28) (1).pdf	288
9.1.b	Draft amending standard – Amendments to the Fair Value Option (NZ IAS 28 Investments in Associates and Joint Ventures).pdf	295

10. Break

10.1 Break

3:45 pm (15 min)

11. IPSASB Consultation Paper - Presentation of Financial Statements

11.1 IPSASB Consultation Paper - Presentation of Financial Statements

4:00 pm (10 min)

For Decision

Approval of comment letter

Supporting Documents:

12. IPSASB Materiality - Phase 2

12.1 IPSASB Materiality - Phase 2

4:10 pm (10 min)

For Decision

Approval of comment letter

Supporting Documents:

13. Non-public session

13.1 Non-public session

4:20 pm (15 min)

14. Non-public session

14.1 Non-public session

4:35 pm (10 min)

15. Close Meeting

15.1 Close meeting

Next meeting: NZASB meeting - 131 - 12 Oct 2026, 9:00 am

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	Background and context to the review of the Accounting Standards Framework
Date:	24 July 2026
Prepared by:	Leana van Heerden
Through:	Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. This paper provides the New Zealand Accounting Standards Board (NZASB) with an overarching background and context paper for the review of the Accounting Standards Framework (ASF). It is intended to set the scene for public-session discussion by explaining what the ASF is, how it operates, why it is being reviewed, and the key factors that will need to be considered as the review progresses.

2. This paper is not intended to seek decisions on changes to the ASF. Rather, it provides a common foundation for future NZASB discussions, noting that earlier NZASB discussions were exploratory and focused on informing the approach to detailed assessment. In this paper we:

   - explain the role of the ASF within New Zealand's financial reporting system;
   - summarise the background to the development of the current ASF and its key structural features;
   - outline relevant domestic, international, legislative and strategic factors that may influence the review;
   - describe the staged approach to the review and the viable options analysis being used for frameworks, sectors, tiers and thresholds; and
   - set out the current project next steps, including development of public papers, the discussion paper and the outreach plan.

Recommendations

3. It is recommended that the Board:

   (a) NOTE the background and context for the review of the ASF;

   (b) NOTE the staged approach to the review, including the use of viable options analysis to support detailed assessment of the key elements of the ASF; and

(c) PROVIDE FEEDBACK on whether any additional background, contextual factors or evidence-gathering considerations should be included as the review progresses.

Structure of this memo

4. The remaining memo and agenda item includes:

(a) XRB mandate and purpose

(b) What is the ASF;

(c) Current ASF structure and how it works;

(d) Why the ASF is being reviewed now;

(e) Purpose and scope of the review;

(f) Background and financial reporting landscape;

(g) Balancing costs and benefits of change;

(h) Approach to the review;

(i) Options analysis; and

(j) Overall project next steps; and

(k) Feedback sought from the Board.

Appendices

Appendix 1: ASF sectors definitions and classification guidance

Appendix 2: Legislative requirements to apply XRB accounting standards

Appendix 3: Section 31 and 32 of the Financial Reporting Act 2013

Appendix 4: Background slides

XRB mandate and purpose

5. The External Reporting Board (XRB) is an independent Crown entity with statutory functions prescribed by Section 12 of the Financial Reporting Act 2013. These functions include developing and issuing financial reporting, climate, auditing and assurance standards; issuing authoritative notices that support the operation of New Zealand's reporting frameworks; and developing strategies for the issue and application of those standards, including the Accounting Standards Framework (ASF). The XRB also engages with domestic and international standard-setting organisations to contribute to the development of high-quality reporting frameworks and to ensure New Zealand's reporting requirements remain internationally informed and credible.

6. The XRB’s purpose is to promote trust and confidence, transparency and accountability through high-quality external reporting and assurance. It does this by establishing and maintaining robust frameworks and standards that are internationally credible, locally relevant and designed to support trusted, informative and integrated reporting that meets users’ needs. The Accounting Standards Framework (ASF) is a key component of this strategic approach, providing the structure through which the XRB applies reporting requirements to different types of entities and balances the benefits of information with the costs of reporting.

What is the ASF

7. The ASF gives effect to the XRB's financial reporting strategy (see Reporting strategies and frameworks » XRB) by setting out how accounting standards apply to different classes of reporting entities. While primary legislation determines *which entities* (refer to Appendix 2) are required to prepare financial statements in accordance with XRB standards, the ASF determines what accounting standards apply to those entities. This distinction is central to the review - the XRB can consider whether the structure and operation of the ASF remain appropriate, but the underlying legislative reporting obligations sit outside the ASF itself.

8. The ASF therefore operates alongside New Zealand's statutory financial reporting framework. This section explains the current ASF and its development, before later sections address the legislative environment and scope boundaries relevant to the review.

9. The current ASF was developed following a multi-year consultative process between 2009 and 2012. That process considered how New Zealand should balance costs and benefits focusing on user needs, international alignment, local relevance and proportionality across the for-profit, public sector and not-for-profit sectors.

10. The resulting framework moved New Zealand from a sector-neutral approach to a sector-based, multi-standard, tiered approach.

Current ASF structure and how it works

11. To provide a common foundation for assessing whether the ASF remains fit-for-purpose, this section first outlines the current structure of the ASF and how its key components operate together. The current ASF has three key structural features:

Structural feature	Description	Purpose
Two-sector approach	Entities are classified as either for-profit entities or Public Benefit Entities (PBEs), based on their primary objective. Refer to Appendix 1 that defines and explains the sector classifications.	Reflects the different user needs, objectives and accountability relationships of entities that operate for financial return compared with those that provide goods or services for community or social benefit.
Tiered approach	Different reporting requirements apply to different tiers within each sector.	Supports proportionality by tailoring reporting requirements to user needs, public accountability, size, and cost-benefit considerations.
Multi-standards approach	Different suites of accounting standards apply to different sectors and tiers. For-profit standards are based on IFRS Accounting Standards. PBE Standards for Tiers 1 and 2 are based primarily on IPSAS Standards, and domestic simple format standards apply to Tier 3 and Tier 4 PBEs.	Recognises that a single suite of standards may not adequately meet the information needs of users across all sectors.

12. For-profit entities are currently divided into two tiers. Tier 1 applies to entities with public accountability, as defined in XRB A1 paragraph 9, and 'large' for-profit public sector entities - 'large' is defined in the Financial Reporting Act 2013 (FRA), refer to Appendix 2. These entities apply New Zealand International Financial Reporting Standards (NZ IFRS). Tier 2 applies to for-profit entities that do not meet the Tier 1 criteria but are required, or elect, to report under XRB standards. These entities apply NZ IFRS with reduced disclosures (NZ IFRS RDR).

13. PBEs are divided into four tiers. Tier 1 and Tier 2 PBEs apply PBE Standards which are based on International Public Sector Accounting Standards (IPSAS), with Tier 2 eligible for reduced disclosures (PBE Standards RDR). Tier 3 and Tier 4 PBEs apply simpler domestic reporting standards, using accrual and cash-based approaches respectively. This tier structure reflects the need to scale reporting requirements for entities of different size, complexity and accountability.

14. These features mean that the ASF is not simply a list of standards. It is a strategic framework that determines how New Zealand balances user needs, international alignment, local relevance, preparer burden, public accountability and proportionality across a diverse reporting population. These ASF requirements are summarised in the table below.

Tier*	Public accountability and thresholds	Standards
For-profit entities		
Tier 1	• Has public accountability as defined in XRB A1; or • A large for-profit public sector entity with total expenses > $33 million (as defined in XRB A1)	NZ IFRS*
Tier 2	A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: • Has no public accountability; and • In the case of a for-profit public sector entity it must have total expenses ≤ $33 million (not 'large' as per XRB A1)	NZ IFRS RDR*
PBE- Public sector and NFP entities		
Tier 1	• Has public accountability as defined in XRB A1; or • A large PBE with total expenses > $33 million (as defined in XRB A1)	PBE Standards
Tier 2	• Has no public accountability; and • Has total expenses ≤ $33 million (not 'large' as per XRB A1)	PBE Standards RDR
Tier 3	• Has no public accountability; and • Has total expenses ≤ $5 million	Tier 3 PBE Standard
Tier 4	• Has no public accountability; and • Is allowed by law to use cash accounting (non-GAAP).	Tier 4 PBE Standard

Why the ASF is being reviewed now

15. The ASF has now been operating for approximately a decade, refer to paragraph 23-33 below which covers the background and financial reporting landscape in more detail. When the XRB completed its targeted review of the ASF in 2020, it noted that a more comprehensive review should be considered once the framework had been operating for 10–15 years. The timing of the current review is therefore consistent with the earlier expectation that the ASF should be reassessed after a period of practical application.

16. The review is also timely because the domestic and international reporting environment has changed materially since the ASF was approved in 2012 and became effective across sectors in 2014 and 2015. Accounting standards have matured, user expectations have evolved, new international frameworks have emerged, and the New Zealand reporting landscape continues to change.

17. The review is therefore intended to test whether the ASF's existing design choices — including its sector structure, tiers, thresholds and suites of standards — remain appropriate in light of experience since implementation and changes in the reporting environment.

Purpose and scope of the review

18. The review of the ASF is a strategic project and was included in the XRB's recently issued Statement of Intent 2025 - 2030. It is being undertaken within the XRB's financial reporting strategy and provides the basis for assessing the matters set out below.

Purpose of the ASF review

The purpose of the 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 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.

19. Exploratory discussions were held with the NZASB, XRB Board and other stakeholders to consider the scope of the review. These discussions analysed different elements of the ASF, including sectors, tiers, thresholds and the suites of accounting standards that apply within the framework. The full scope is still being refined as staff work through the detailed assessments and identify the evidence required to support robust decision-making.

20. To support a clear and productive review process, the following matters have been agreed as *out of scope* for this review:

Out-of-scope matter	Implication for this review
Legislative reporting requirements	The review will not consider legislative requirements that determine *which entities* must prepare financial statements in accordance with XRB standards. Refer to Appendix 2 for legislative reporting requirements.
Detailed standard-setting requirements	The review will not reconsider detailed recognition, measurement, presentation and disclosure requirements within existing accounting standards, including RDR concessions and the Conceptual Framework. This also includes decisions on whether particular standards or disclosures are mandatory for certain sectors, tiers or entity types, such as the mandatory nature of service performance reporting for PBEs.
Assurance and professional standards	The review will not consider auditing, assurance, professional or ethical standards.
Climate Standards	The review will not consider the XRB's Climate Standards.
Broader reporting architecture	The review will not consider the XRB's broader architecture of reporting, other than the ASF.

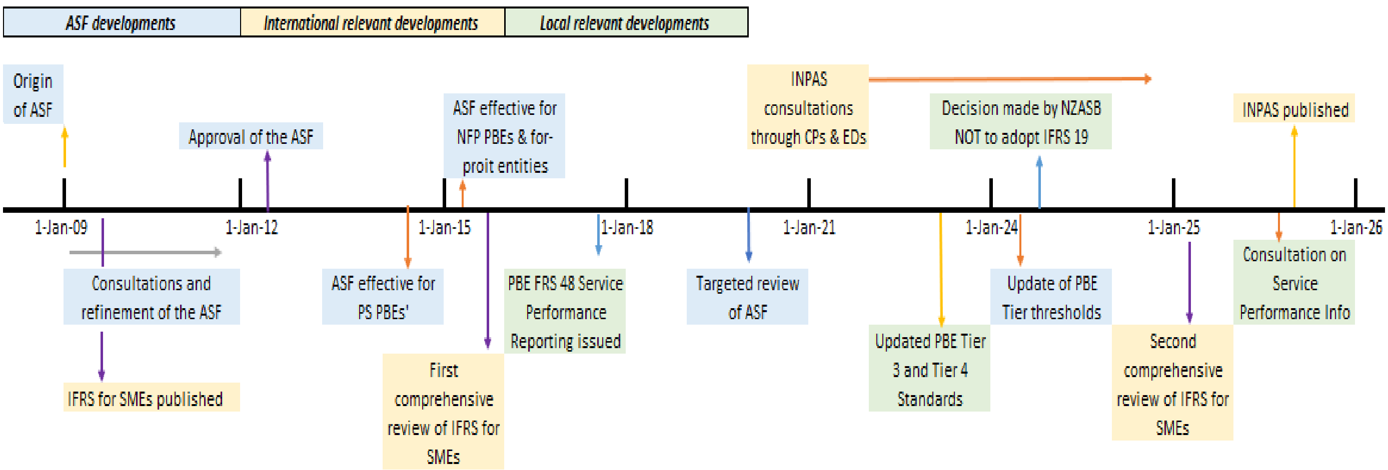
21. These scope boundaries are intended to focus the review on the structure and operation of the ASF itself, rather than reopening the requirements included in legislations, assurance standards, climate standards or the detailed requirements within individual standards.

22. The following section provides further context on the financial reporting landscape within which the ASF operates. This context is relevant to the review because any potential changes to the ASF will need to be assessed within New Zealand's legislative environment, the historical development of the framework, international developments, Australia–New Zealand harmonisation considerations, and the practical costs and benefits of change.

Background and financial reporting landscape

23. The ASF is a financial reporting strategy for the purposes of the Financial Reporting Act 2013. Accordingly, any proposal to vary or replace the ASF must be considered within the statutory process in sections 31 and 32 of the Act, which require Ministerial approval and prescribe matters the XRB must have regard to when preparing such a proposal. These provisions are reproduced in Appendix 3 for ease of reference.

24. The timeline below sets out key milestones in the ASF's development, including consultations, reviews and relevant international and local developments that may need to be considered during the review.



Acronyms used above: NFP = Not-for-profit, PBE = Public Benefit Entity, INPAS = International Non-Profit Accounting Standard, CP = Consultation Paper, ED = Exposure Draft, IFRS for SMEs = International Financial Reporting Standards for Small and Medium-sized Entities, and PS = Public Sector.

25. The ASF originated from the broader review of New Zealand's statutory financial reporting requirements that began in 2009. That reform process addressed both the legislative question of which entities should be required to prepare financial statements in accordance with XRB standards and the related standards-setting question of what accounting standards should apply to those entities. As noted above, the current review is focused on the latter question — the strategy for determining the applicable accounting standards — while the legislative reporting requirements sit outside the scope of this review.

26. A central feature of the reform was the move away from New Zealand's previous sector-neutral approach. In 2009, the Auditor-General issued a discussion paper flagging IFRS as not suitable for public sector and not-for-profit entities and setting out alternative framework options. The development of the ASF recognised that entities operating for financial return and PBEs have different objectives, accountability relationships and user needs, and that a single set of accounting standards may not adequately serve all reporting entities. This led to the

development of a sector-based framework (refer to Appendix 1), supported by different suites of standards and a tiered structure to scale reporting requirements across New Zealand's diverse reporting population.

27. The ASF was developed through an extensive consultation process between 2009 and 2012 and was approved in April 2012, refer to our website for the recent history of our ASF. It became effective progressively across sectors from 2014 to 2015. Further detail on the current structure and operation of the ASF is set out in paragraphs 11–14 above. This history is relevant to the current review because the sectors, tiers and suites of standards now being assessed were established to respond to specific policy objectives and stakeholder needs, which provide an important reference point for considering whether the ASF remains fit for purpose.

28. Following this, a targeted review of the ASF was undertaken in 2019–2020 to "check in" on whether the ASF was functioning as anticipated, achieving its original objectives, and whether any refinements were needed in response to unintended consequences, new developments or emerging issues. The review specifically considered IPSAS alignment for PBEs, harmonisation with Australia for Tier 2 for-profit disclosures, and whether the PBE tier size criteria needed to be revisited.

29. The feedback received did not identify significant unintended consequences or developments requiring changes to the ASF at that time. The XRB therefore concluded that no changes were required, while noting the importance of continued IPSAS alignment, appropriate flexibility for New Zealand-specific circumstances, and continued consideration of Australia–New Zealand harmonisation. The targeted review also noted that it was too soon to undertake a fulsome ASF review and recommended that the fundamental elements of the ASF be reviewed once the framework had been effective for at least 10–15 years. Link to the feedback statement.

30. The tier size thresholds in the ASF have been periodically amended to reflect legislative changes and stakeholder feedback, in March 2024 the PBE threshold was adjusted for inflation and other factors. Following this in June 2026, the expenses threshold for for-profit public sector entities was increased from $30 million to $33 million to align with the PBE Tier 1 threshold, mandatory for periods beginning on or after 1 January 2027.

31. While the ASF's background and progression provide important context, the review must also take account of broader developments that may influence the ASF's future direction. These developments highlight evolving international practices and domestic reporting needs, and include:

- IFRS for SMEs, first issued in 2009 and updated periodically with its third edition issued in 2025;
- Introduction of PBE FRS 48 Service Performance Reporting, effective for reporting periods beginning on or after 1 January 2022, with subsequent consultation in 2025 on implementation challenges for Tier 1 and Tier 2 NFP entities. The feedback statement confirmed support for consistent, high-quality service performance reporting, while identifying challenges relating to clarity of requirements, reporting maturity, sector differences and assurance evidence. In response, the XRB developed additional practical guidance material, including factsheets for Tier 1 and Tier 2 PBEs, which is available on the Tier 1 & Tier 2 Service Performance Reporting Guidance page.
- Updates to Tier 3 and Tier 4 PBE standards and reporting templates in May 2023;
- The NZASB's June 2024 decision not to adopt the IASB's IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, as the existing Reduced Disclosure Regime (RDR) was

considered sufficient, and the adoption of IFRS 19 would not offer substantial improvements over the existing RDR framework; and

- Publication of the International Non-Profit Accounting Standard (INPAS) in October 2025, based on IFRS for SMEs and designed specifically for the NFP sector.

32. In addition to these developments, harmonisation and collaboration with Australia remain central to the XRB's strategy, given the benefits of consistency for cross-border economic activity and comparability for users. Full alignment is neither necessary nor always appropriate, particularly for PBEs, but we weigh the benefits of aligning with Australian developments against the need for standards tailored to New Zealand's regulatory and sectoral context.

  - Both countries align Tier 1 for-profit standards with IFRS as well as recognition and measurement principles for Tier 2, though disclosure concessions differ.
  - However, significant divergence exists in the PBE space - New Zealand applies IPSAS-based standards across multiple tiers, while Australia uses transaction-neutral standards for Tier 1 and Tier 2 based on IFRS and recently issued a Tier 3 standard for smaller NFPs.

33. The developments in the financial reporting landscape underscore the complexity of considerations for the review of the ASF and the importance of any adjustments delivering clear benefits without imposing disproportionate costs.

Balancing costs and benefits of change

34. The review of the ASF must recognise that New Zealand's framework is deeply embedded (being effective for all entities since 2015), and we appreciate while any change will impose costs on users, preparers, and auditors, 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. The review presents opportunities to future-proof financial reporting for New Zealand.

35. This section outlines key risks that could increase costs and complexity, as well as opportunities that could deliver meaningful benefits. These are not exhaustive but represent the most significant considerations that may inform the assessment of alternatives as part of the ASF review.

Risks

(a) *International alignment vs local relevance* – Proposed changes may create tension between maintaining international alignment and ensuring standards remain fit for purpose domestically. Any adjustments must be well justified and preserve the XRB's strategy of being internationally aligned and locally relevant.

(b) *Stakeholder and ministerial engagement risks* – The review is strategically significant and subject to Section 31 and 32 of the FRS (refer to Appendix 3) and inputs from the Minister of Commerce and Consumer Affairs, and Ministry of Business, Innovation and Employment (MBIE).

(c) *Workforce capacity and capabilities* – The accounting workforce in New Zealand has finite capacity. Changes to the ASF could exacerbate these pressures, require additional expertise and reduce overall resilience.

(d) *Complexity and fragmentation risk* – Beyond workforce constraints, the ASF is already complex, relative to the size of New Zealand's economy. Any move toward introducing new frameworks or increasing fragmentation could risk adding unnecessary complexity, complicate consolidated reporting and undermine the simplicity needed for efficient application. Careful evaluation is essential before making changes to avoid unnecessary disruption.

(e) *Data gaps and evidence constraints* – Sound decisions depend on better visibility of reporting entity populations and user needs. Current data limitations on the population and user needs could impede proportionate and informed adjustments.

<u>*Opportunities*</u>

(a) *Future-proofing New Zealand's financial reporting system* – Revisiting foundational assumptions provides an opportunity to ensure the ASF remains responsive to evolving economic conditions, international developments, entity structures and user expectations. This supports a reporting system that remains fit for purpose over the long term, including through threshold settings that continue to capture the intended reporting populations.

(b) *Supporting confidence in New Zealand's reporting and accountability environment* – A fit-for-purpose ASF supports high-quality, decision-useful financial reporting across the for-profit, public sector and not-for-profit sectors. This contributes to confidence among investors, creditors, funders, donors, regulators and other users of financial reports.

(c) *Supporting capital access and economic credibility* – Maintaining an internationally credible and locally relevant reporting framework can support New Zealand entities' access to capital, ease of doing business, comparability with overseas markets, and confidence in New Zealand's broader economic and public accountability settings.

(d) *Improving proportionality and reducing unnecessary compliance burden* – The review provides an opportunity to refine sectors, tiers, thresholds and standards frameworks so that reporting requirements are better aligned with entity size, complexity, accountability and user needs. This can reduce unnecessary cost while preserving the quality and usefulness of reporting.

(e) *Strengthening system coherence and capability* – Simplifying or better aligning parts of the ASF could reduce fragmentation, improve understandability for users and preparers, and support more sustainable capability across the accounting, assurance and wider reporting ecosystem.

(f) *Improving evidence for future reporting policy decisions* – Evidence gathered through the review can improve understanding of reporting entity populations, user needs, implementation costs and threshold impacts. This can support better decisions during this review and provide a stronger evidence base for future financial reporting policy and standard-setting decisions.

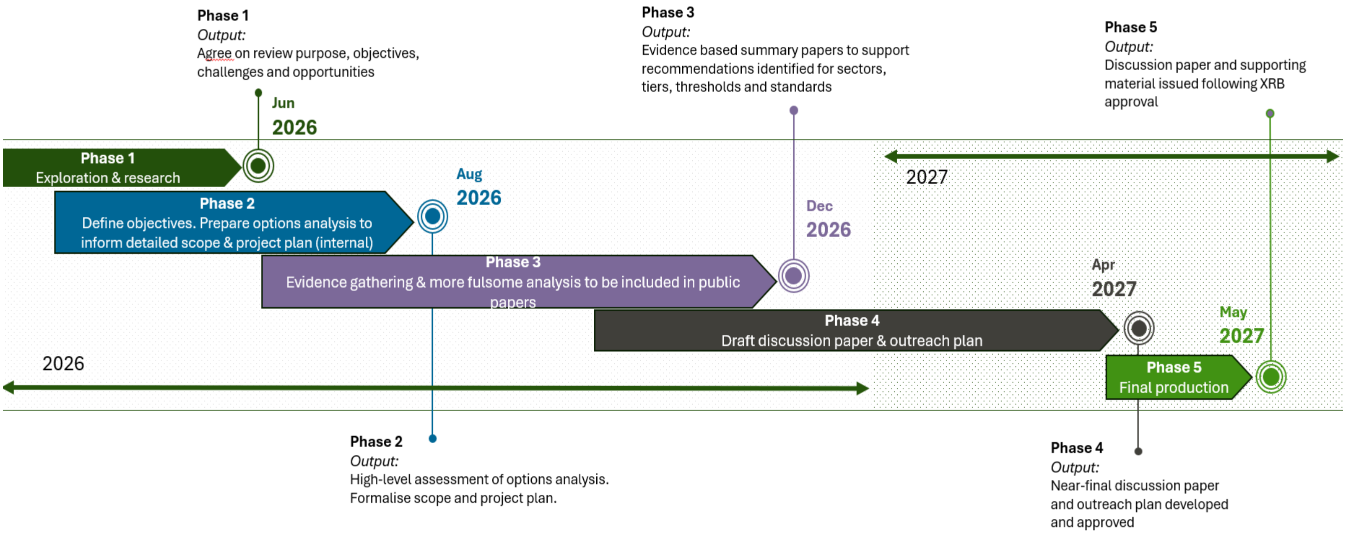
(g) *Supporting workforce capability and system resilience* – A clearer and more coherent ASF could reduce unnecessary fragmentation, support mobility across sectors, and help sustain the capability needed for high-quality financial reporting in New Zealand.

(h) *Supporting the XRB's strategic stewardship of the ASF* – The review provides an opportunity for the XRB to clearly articulate the future direction of the ASF and demonstrate how its financial reporting strategy supports high-quality, decision-useful reporting in the public interest.

36. These considerations will be used as an overlay when assessing the viable options, alongside the specific assessment criteria developed for frameworks, sectors, tiers and thresholds.

Approach to the review

37. The ASF review is being undertaken through a staged approach.



38. The first stage focused on developing a shared understanding of the current environment in which the ASF operates, including the legislative framework, the current structure and operation of the ASF, the broader financial reporting landscape, and relevant domestic and international developments. This context is set out in the preceding sections and provides the foundation.

39. The review then moved into an exploratory phase focused on the key elements of the ASF, including the frameworks, sectors, tiers and thresholds. These matters were discussed with the NZASB and XRB Board to test the key issues, identify areas requiring further analysis, and understand the viable options over which a more fulsome assessment could be performed.

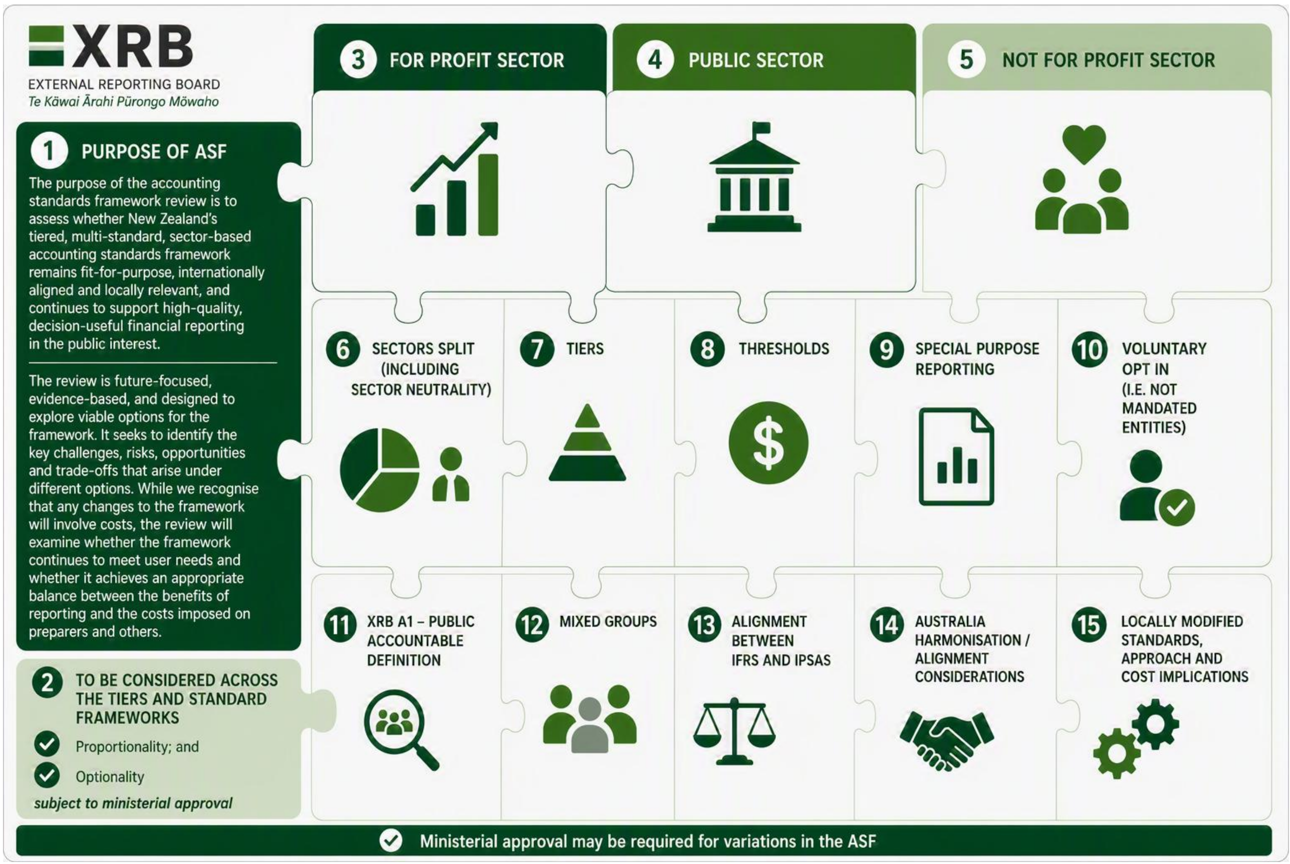
40. The review is now progressing into detailed assessment and evidence gathering. This phase will involve a more fulsome analysis of the viable options identified through the exploratory phase, including their implications for users, preparers, auditors, standard setters and other stakeholders. The analysis will be informed by available data, stakeholder feedback, international developments, Australia–New Zealand harmonisation considerations and the statutory matters that the XRB must have regard to if proposing any variation or replacement of the ASF. Further information on the options analysis approach is set out below.

41. The detailed analysis will be brought to the NZASB through public papers as the review progresses. These papers will support Board discussion and direction on the key elements of the ASF with suggested drafts for discussion paper information and the related questions on the relevant topic. At this stage these Board papers are intended to form our views to ultimately put into a discussion paper expected in May 2027. As the ASF is a complicated project with multiple interdependencies within the elements, we envision iterations and deliberations of ideas to evolve over the coming months, and do not propose these workpapers to be the final position of a matter until such time as the discussion paper is released for public consultation.

42. Staff encourage the public to engage with the accounting standards team throughout this project if there are specific ASF elements you would like us to consider. During phase 1 staff identified several elements within the ASF that will be explored as part of this review. Due to the interdependencies of the various elements, staff and the Board reserves the right to revisit any tentative decision made as part of the discussions as other elements are explored and considered. The current ASF applies across a diverse range of reporting entities. While the framework is commonly described as a two-sector model (for-profit entities and PBEs), in

practice entities are generally understood and operate within three reporting groups with distinct features. For this reason it has been determined that these three reporting groups being for-profit, public sector and not-for-profit entities will be considered separately for purposes of the ASF review.

The key elements being considered (at this stage) within this review are depicted below:

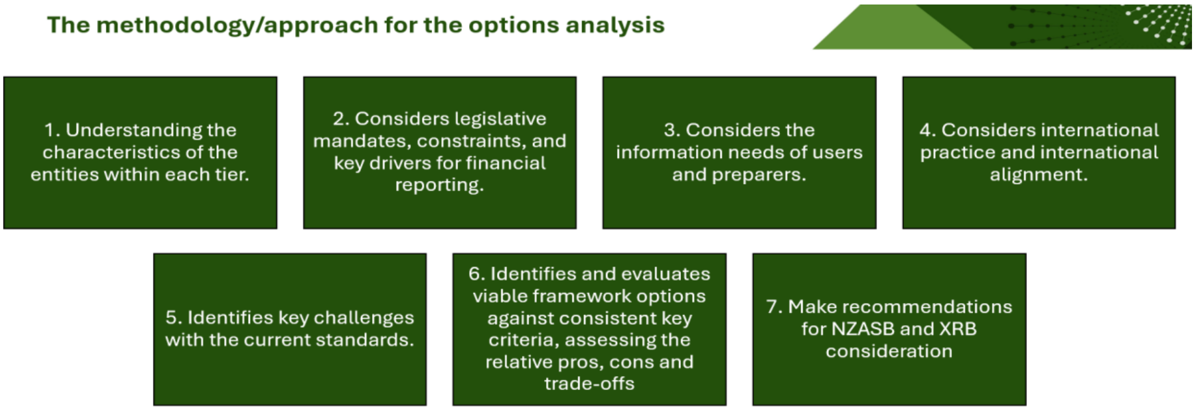


43. The remaining stages of the project are outlined in the overall project next steps below.

Options analysis

44. The detailed assessment phase uses a viable options analysis to test the key elements of the ASF, including the applicable frameworks, sectors, tiers and thresholds. This approach is appropriate because each element may have more than one possible future direction, and enables staff to focus detailed assessment on options that are credible, coherent and capable of being implemented in New Zealand, while still testing those options against the review's objectives, relevant evidence and the statutory matters that the XRB must have regard to.

45. For the options analysis, staff followed the following methodology:



46. For the framework options analysis, staff followed a staged process of identifying possible standards frameworks, filtering those options to determine which were viable in the New Zealand context, and then assessing the viable options against common criteria. In determining viability, staff considered matters such as the purpose of the ASF, the current reporting population, international alignment and local relevance, Australia–New Zealand harmonisation considerations, and practical implications for users, preparers, auditors and standard setters.

47. Each viable framework option was assessed by considering its key advantages and disadvantages and comparing it against the agreed assessment criteria. The key criteria included an additional criteria for Tier 2 to Tier 4 entities for interoperability and the technical fitness criteria was adjusted to make it applicable to the public sector and NFP entities (refer to key criteria in the tables below). This provides a consistent basis for identifying key trade-offs and supporting transparent Board discussion before the options and related consultation questions are reflected in the discussion paper.

Key criteria used for all frameworks

Key criteria	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
This means:	Technical fitness; coherent suite capable of handling complex transactions developed with user needs in mind (preparer and user focus)	Simplification options (addressing preparers' concern about complexity)	Internationally aligned Internationally recognised and comparable - including Australia	Ability to make local modifications and/or influence internationally to enable local relevance	Ecosystem and workforce considerations (the market)	Cost of change (transition costs for preparer and ecosystem)	Ongoing costs incl maintenance the standards (i.e. how often are changes expected) (preparer focus)

Variations to - key criteria for Tier 2 entities and below, and technical fitness for public sector and NFP entities

Key criteria-	Move between tiers	Technical fitness	Technical fitness
This means:	Interoperability with Tier 1 (accounting and workforce)	Technical fitness; coherent suite capable of handling *public sector transactions* developed with user needs in mind (preparers and user focus) – *focused on benefits*	Technical fitness; a coherent suite capable of *faithfully representing not-for-profit transactions and accountability relationships*, developed with user needs in mind (preparers and user focus)
Applicable to:	***Tier 2-Tier 4 entities***	***Public sector entities***	***NFP entities***

48. The sectors analysis applies a similar viable options approach. Staff identified feasible sector models informed by the current ASF, user needs, international approaches and observed challenges, and considered each option against key design tensions and its strength and weaknesses.

49. The tiers analysis considers whether the number, purpose and boundaries of the current tiers remain appropriate within each sector. Staff identified feasible tier structures for the for-profit and PBE workstreams and assessed their strengths, weaknesses and implications by reference to user needs, proportionality, international alignment, transition impacts and the coherence of the ASF.

50. The thresholds analysis follows from the sector and tier analysis. Staff are first considering the most appropriate threshold indicators and models, rather than setting specific values, taking into account legislative settings, population characteristics, user needs, stewardship responsibilities, entity capability and practical application.

Overall project next steps

51. Staff will continue progressing the detailed assessments identified through the exploratory phase. The outputs from this work will be brought to the NZASB with a focus on obtaining direction on the options and consultation questions to be included in the discussion paper.

52. Staff notes that each of the key element's detail assessment paper will be included in the Board papers over the coming months.

53. Conclusions will be communicated with the XRB at key milestone phases. Following completion of the detailed assessments, staff will consolidate the drafted discussion paper and questions.

54. A draft outreach plan will also be shared with the NZASB and XRB which will identify how staff propose to engage with relevant sectors, tiers and user groups during consultation.

55. The final stage will involve seeking the necessary NZASB feedback and XRB Board approvals to release the discussion paper for public consultation. The current project timeline anticipates release of the discussion paper in May 2026, subject to completion of the detailed assessments, Board direction and any required approvals.

Feedback sought from the Board

56. Overall, this memo is intended to provide a shared foundation for the next phase of the review. It brings together the legislative context, history of the ASF, relevant developments, risks and opportunities, and the approach to options analysis, so that future public papers can focus on the substantive choices for each element of the framework.

57. Staff are seeking the Board's feedback on whether the background, context and proposed approach provide an appropriate foundation for the detailed assessments and public papers that will follow.

Question for the Board
Does the Board have any feedback on this memo, including whether any additional matters should be included?

Appendices

- Appendix 1: ASF sectors definitions and classifications guidance
- Appendix 2: Legislative requirements to apply XRB Accounting Standards
- Appendix 3: Section 31 and 32 of the FRA
- Appendix 4: Background slides

Appendix 1: ASF sectors definitions and classifications guidance

Current two-sector model

Sector Definitions per XRB A1 paragraph 6

The definitions used to determine whether an entity falls within the for-profit or PBE accounting standards frameworks are as follows:

Public Benefit Entity (PBE) - *A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.*

For-Profit Entity - *Any reporting entity that is not a public benefit entity.*

Public sector PBEs – *are PBEs that are public entities as defined in the Public Audit Act 2001 (Section 5) which includes seven types of entities including the Crown, offices or parliament and parliamentary agencies, etc.*

Not-for-profit PBEs – *are PBEs that are not public sector PBEs.*

For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001

Classification guidance – XRB A1 Appendix A paragraphs 1-38

Classification based on primary objective (substance over form)	Indicators used to assess classification	Classification may require judgement
• Legal form is not determinative • Consideration is at the reporting entity level which may differ from group classification	• Stated objectives • Nature of benefits, including the quantum of expected financial benefits • Primary beneficiaries of the benefits • Nature of equity interest • Purpose and use of assets	Assessment may require judgement, particularly where objectives are unclear or mixed. Conflicting indicators – assess collectively and focus on overall substance of purpose. Consider relative significance of each indicator (some may be less significant).

Changing classifications – XRB A1 Appendix A paragraphs 39-40

Classification may change if circumstances or objectives change. This requires reassessment of applicable reporting tier (XRB A1) and application of accounting requirements of the new classification, including first-time adoption.

Appendix 2: Legislative requirements to apply XRB accounting standards

Primary legislation determines 'who' is in scope and required to apply the ASF and XRB accounting standards. Below are the legislative requirements to apply XRB accounting standards and the relevant parameters (this list is not exhaustive):

Primary legislation	Legislative requirements
Financial Reporting Act 2013 (FRA) - Section 9,12 & 45	• Obligation to comply with GAAP when another Act requires financial reporting – this section ensures that where the Companies Act or FMC Act (applicable to Tier 1 entities) requires financial statements, they must follow XRB standards (Section 9) • XRB mandate to issue financial reporting standards (Section 12) • Defines 'large' (over $66m assets or $33m revenue, for last two accounting period), and defines 'large overseas company' (over $22m assets or $11m revenue for last 2 accounting periods) (Section 45)
Companies Act(Co Act) 1993 - Sections 200-202	The following types of companies are required to comply with GAAP: (a) large company; (b) public entity; (c) large overseas company; (d) company with 10 or more shareholders unless opted out of compliance with the provision; and (e) company with fewer than 10 shareholders but opted into compliance with the provision.
Other legislation requiring GAAP compliant financial reporting	We note that several other Acts also impose GAAP reporting obligations, for example – Building Societies Act 1965, Energy Companies Act 1992, Incorporated Societies Act 2022, Māori Community Development Act 1962, etc. (this list is not exhaustive).

Appendix 3: Section 31 and 32 of the FRA

31 *Minister may approve variation or replacement of strategy*

1) *The Minister may, after receiving a proposal for the variation or replacement of the strategy prepared by the Board under section 32, either approve or decline to approve the variation or replacement.*
2) *The Minister may decline to approve the variation or replacement only if, in his or her opinion,—*
   a) *the Board has not had sufficient regard to the matters specified in section 32(1)(a); or*
   b) *the Board has not adequately consulted on the proposal under section 33.*

32 *Process for preparing proposals to vary or replace strategy*

1) *In preparing a proposal for the variation or replacement of the strategy, the Board must—*
   a) *have regard to—*
      i) *the purpose referred to in section 29; and*
      ii) *the advantages and disadvantages of placing different classes of reporting entities within different tiers of financial reporting; and*
      iii) *which FMC reporting entities are considered to have a higher level of public accountability under section 461K of the Financial Markets Conduct Act 2013; and*
   b) *ensure that the strategy, after the variation or replacement takes effect,—*
      i) *specifies the qualifying criteria for each tier of financial reporting; and*
      ii) *describes the financial reporting requirements that will apply for each tier of financial reporting; and*
      iii) *includes any other prescribed matters.*
2) *The description under subsection (1)(b)(ii) may refer to—*
   a) *a set of standards (for example, International Financial Reporting Standards and International Public Sector Accounting Standards):*
   b) *specific standards:*
   c) *accounting policies, principles, concepts, or methods (for example, the principles of accrual accounting):*
   d) *any combination of the matters in paragraphs (a) to (c).*
3) *A proposal for the variation or replacement of the strategy must specify the Board's reasons (including why the variation or replacement is considered to be appropriate).*

Appendix 4:

Background and context to the Accounting Standards Framework (ASF)

The XRB mandate and purpose

Our mandate

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

Our purpose

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

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

Why are we doing a review of the ASF?

2012

ASF became effective

2014/2015

2019

Targeted review

Current ASF review commenced

2026

The Foundation

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

A changing landscape

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

Questions in 2026

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

Purpose of the ASF review

Purpose of the ASF review

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

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

Scope of the review

What is out of scope for this review

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

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

Our current ASF

1. Two-sectors
Different suites of accounting standards for two distinct sectors based on their primary objectives:
- **For-profit entities**
- **Public benefit entities (PBEs)**
    - Public sector PBEs
    - Not-for-profit PBEs

+

2. Tiered approach
Different accounting requirements for each tier based on cost-benefit considerations:
- For-profit entities – **two tiers**
- PBEs – **four tiers**

+

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

Background – rationale for sector approach in the ASF

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

BEFORE 2012

Sector-neutral approach

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

2009 – 2012

Concerns raised at the time

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

2012 ONWARDS

Multi-sector approach

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

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

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

Background – rationale for tiers and thresholds approach in the ASF

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

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

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

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

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

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

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

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

Our current ASF: the standards for different entities

For profit sector	PBE Sector	
For-profit entities	**Public sector entities**	**Not-for-profit entities**
T1 & T2 for-profit entities	T1 & T2 PBEs	
IFRS Foundation	IPSASB	
Required or permitted in 161 jurisdictions	Adopted or partially adopted in 86 jurisdictions*	
	T3 & T4 PBEs	Locally developed accounting standards

IPSASB: ***Converged with IFRS to the extent suitable for the public sector***

*includes adoption of cash basis IPSAS

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

Financial reporting requirements based on:
- Public accountability
- Economic significance
- Separation between owners and governing body

Accounting Standards Framework (ASF)

XRB levers

1. Two-sector approach

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

2. Tiered approach

Different accounting requirements based on cost-benefit considerations.

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

3. Multi-standards

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

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

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

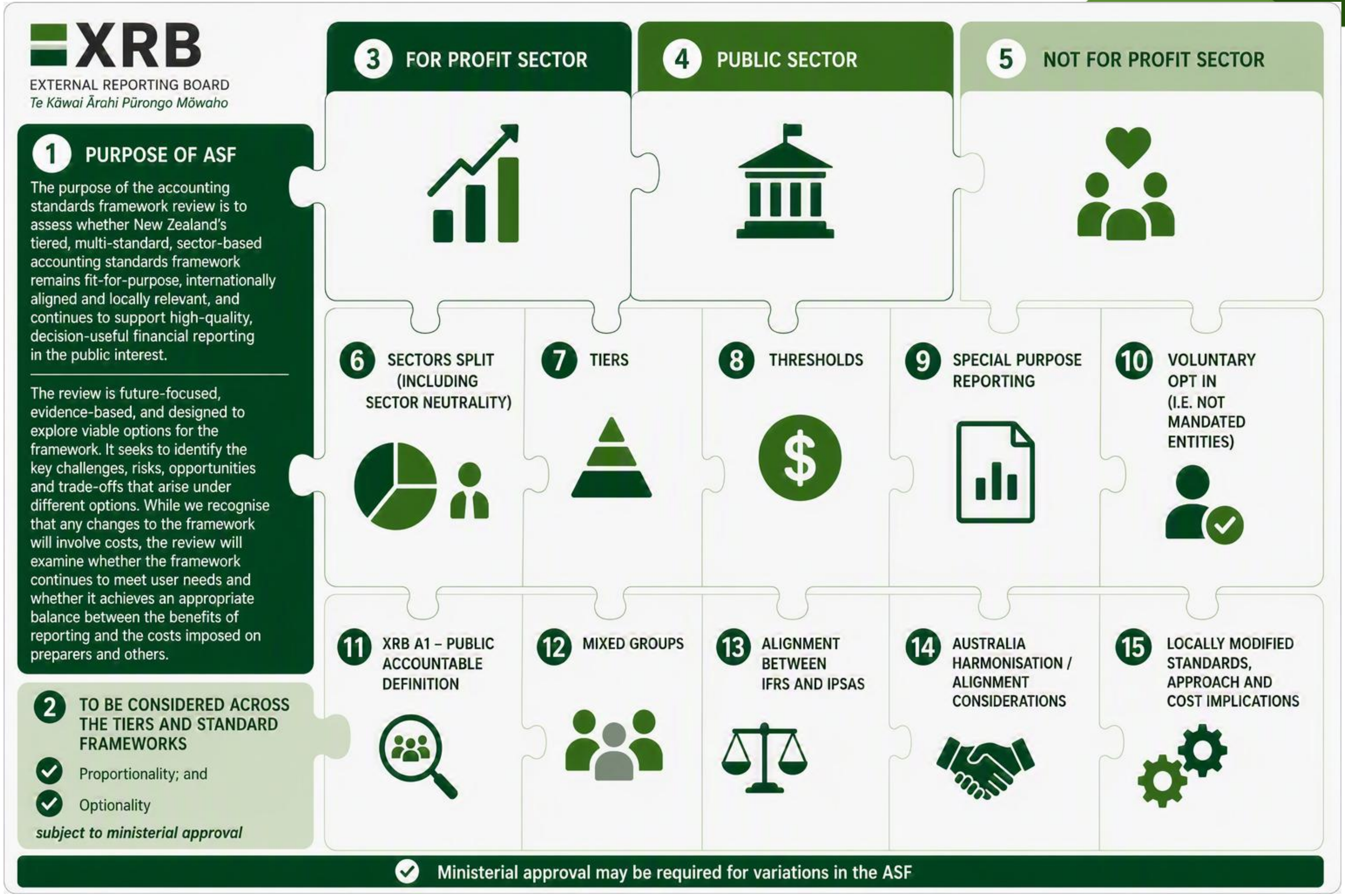
An entity identifies its sector and tier, then applies the applicable standards.

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

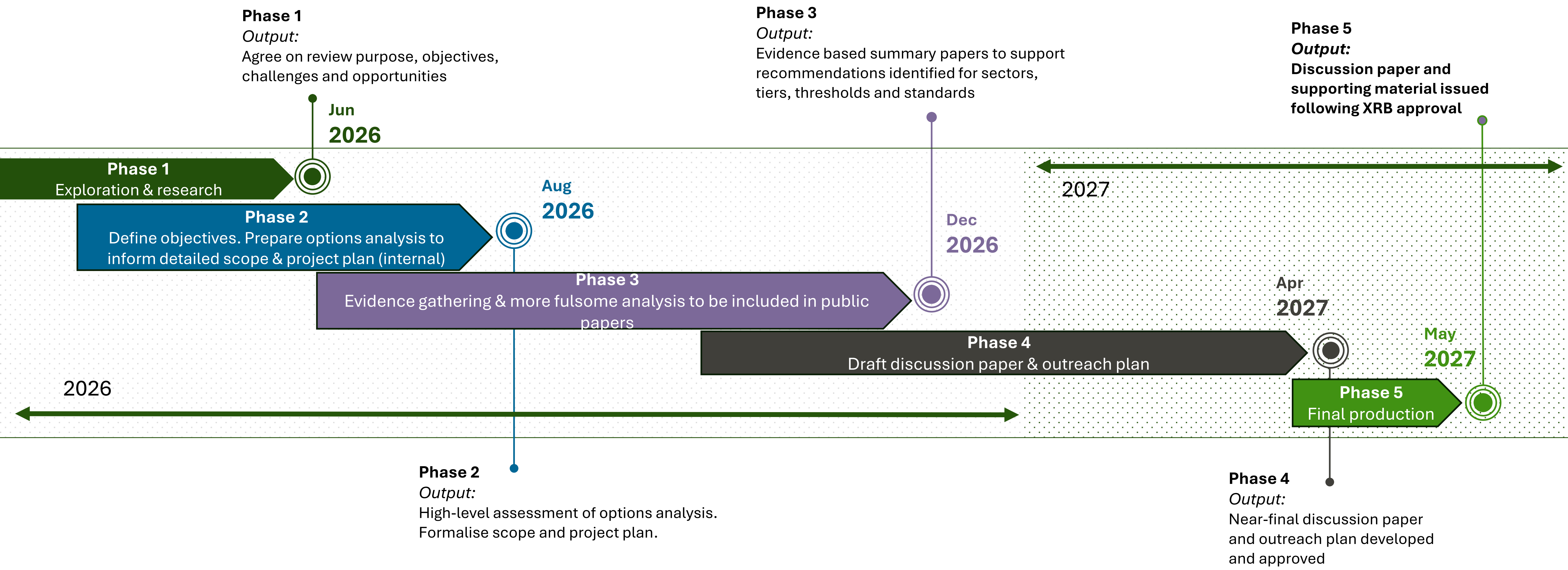
	PBE public sector and not-for-profit entities	Framework
Tier 1	• Public accountability; or • Large PBE with total expenses > $33 million	PBE Standards
Tier 2	• No public accountability • Total expenses ≤ $33 million	PBE Standards RDR
Tier 3	• No public accountability • Total expenses ≤ $5 million	Tier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

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

ASF review – elements we will consider and analyse



Timeline and phases of the ASF review



Phase 3 - The methodology/approach for the options analysis

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

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

1. Understanding the characteristics of the entities within each tier.
2. Considers legislative mandates, constraints, and key drivers for financial reporting.
3. Considers the information needs of users and preparers.
4. Considers international practice and international alignment.
5. Identifies key challenges with the current standards.
6. Identifies and evaluates viable framework options against consistent key criteria, assessing the relative pros, cons and trade-offs
7. Make recommendations for NZASB and XRB consideration

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

End of agenda item 6.1a

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	6 August 2026
Subject:	**Analysis of Sectors – Review of the ASF**
Date:	23 July 2026
Prepared by:	Alex Stainer
Through:	Leana Van Heerden, Gali Slyuzberg, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this memo is to seek Board agreement on the sector options that should be included in the Discussion Paper, and the respective direction of the consultation questions for stakeholder feedback.
2. This paper presents staff analysis of sector structure options for the ASF, taking into account the exploratory discussions with the New Zealand Accounting Standards Board (NZASB) and the External Reporting Board (XRB) to date.
3. The paper focuses solely on sector structure within the ASF. It does not consider tiers, thresholds, or detailed standards-level requirements, except where necessary to explain the implications of particular sector design options.

Recommendations

4. The Board is asked to:
   - (a) NOTE and provide FEEDBACK on the supporting analysis of the sector structure and options;
   - (b) AGREE on sector options for inclusion in the ASF Discussion Paper;
   - (c) Provide FEEDBACK on proposed framing of the analysis of sector options for inclusion in the ASF Discussion Paper; and
   - (d) Provide FEEDBACK on the direction of the proposed sector consultation questions for inclusion in the ASF Discussion Paper.

Background

5. For detail on the background and context of the ASF review, please see the background to the ASF review memo at agenda item 6.1a. This memo contains the following contextual information:

   Memo contents

   - (a) XRB mandate and purpose;

(b) What is the ASF;

(c) Current ASF structure and how it works;

(d) Why the ASF is being reviewed now;

(e) Purpose and scope of the review;

(f) Background and financial reporting landscape;

(g) Balancing costs and benefits of change;

(h) Approach to the review;

(i) Options analysis;

(j) Overall project next steps; and

(k) Feedback sought from the Board.

Appendices

(l) Appendix 1: ASF sectors definitions and classification guidance

(m) Appendix 2: Legislative requirements to apply XRB accounting standards

(n) Appendix 3: Section 31 and 32 of the Financial Reporting Act 2013.

Overview of the current sector model

6. The current ASF is based on a purpose driven two-sector model, with entities classified as either for-profit entities, or Public Benefit Entities (PBEs).

7. An entity that has a statutory requirement to prepare, or opts under an enactment to prepare, a general purpose financial report (GPFR) must determine its sector classification in accordance with XRB A1 *Application of the Accounting Standards Framework*.

Sector	Classification basis	Standards framework
For-profit	Entity is not a PBE	NZ International Financial Reporting Standards (NZ IFRS)
PBE	Meets the PBE definition (refer to paragraph 8) Must then determine whether it is a public sector PBE or a not-for-profit PBE	PBE Standards based on International Public Sector Accounting Standards (IPSAS), unless eligible for Tier 3 or Tier 4

8. PBEs are defined as 'reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders'. Whereas for-profit entities are defined as 'reporting entities that are not PBEs'.

9. If a reporting entity is a PBE, it must then determine whether it is a public sector PBE or a not-for-profit PBE. A public sector PBE comprises public entities, as defined in the Public Audit Act 2001, and all Offices of Parliament. A not-for-profit PBE is any PBE that is not a public sector PBE. Although the reporting requirements for public sector and not-for-profit PBEs are largely aligned, the distinction is retained because the sectors are subject to different legislative frameworks and operate in different environments, which gives rise to some sector-specific requirements and terminology.

10. Once a reporting entity has determined its sector classification, it must report in accordance with Tier 1 accounting requirements for that sector, unless it meets the criteria to report in accordance with another Tier.

Current reporting landscape

11. The current ASF applies across a diverse range of reporting entities. While the framework is commonly described as a two-sector model (for-profit entities and PBEs), in practice entities are generally understood and operate within three reporting groups.

Sector	Examples	Economic significance[1]
For-profit	Listed issuers, funds, large privately held companies, state-owned-enterprises, cooperatives	Generally medium to high. Includes entities with over $33m revenue or $66m assets and overseas entities with over $22m assets or $11m revenue (as well as smaller entities if they issue shares/bonds/units to the public, etc.).
PBE sector (Public sector PBE)	Government departments, Crown entities, local authorities, schools	Generally high, but with a large volume of smaller entities such as schools.
PBE sector (Not-for-profit PBE)	Registered charities, incorporated societies, other community organisations	Generally lower relative to the other sectors, with the vast majority of not-for-profit entities small in size. However, the sector is economically significant in aggregate due to the large number of entities (which also includes some very economically significant entities) and the resources they collectively manage

12. These groups differ in their objectives, accountability arrangements, funding models and user needs. They also vary significantly in both number and economic significance. This diversity is one of the factors that has shaped the current sector model and is relevant when considering whether alternative sector structures may be appropriate.

Rationale for the current sector model

13. The current sector model reflects New Zealand's move away from a single, sector-neutral framework following the adoption of IFRS in the mid-2000s.

14. Over time, it became evident that a single set of standards designed primarily for for-profit entities and capital market participants did not adequately reflect:

    (a) the objectives of public sector and not-for-profit entities;

    (b) the nature of transactions common in those sectors (e.g. non-exchange transactions such as taxes, grants, and donations); and

    (c) the accountability relationships between those entities and their primary users.

15. In response, New Zealand introduced a multi-sector framework in 2012, distinguishing between for-profit entities and PBEs. This enabled the use of different standards frameworks better aligned to the underlying nature of entities and their reporting needs. More information about the history of the current ASF design can be found here.

[1] Refers to the economic significance of entities within the sector, rather than the economic significance of the whole sector.

16. The current sector model is therefore underpinned by a distinction in the purpose and objectives of reporting entities. For-profit entities primarily seek to generate financial returns for owners and investors, while PBEs primarily exist to provide goods or services for community or social benefit.

17. A purpose-based approach was adopted because it was able to differentiate the core substance of an entity's objectives, accountability relationships and transactions that matter for reporting while balancing costs involved with further sector differentiation.

User needs

18. The rationale for sector differentiation is ultimately driven by differences in the information needs of users. Financial reporting is intended to provide information that is useful for decision-making and accountability purposes, and those needs may differ depending on the objectives of the entity and its relationship with stakeholders.

19. For-profit entities are generally funded through investment and lending arrangements. Their primary users are typically investors, lenders and other creditors, who are principally interested in information that supports economic decision-making (about buying/holding/selling shares or providing funding or credit to the entity), including assessments of financial performance, financial position, cash flows and future returns.

20. Public sector and not-for-profit entities are generally established to provide public or community benefit, rather than generate financial returns. Their users commonly include taxpayers, ratepayers, donors, funders, service recipients and elected representatives. These users are often interested not only in financial performance and position, but also in how resources have been obtained, managed and used to achieve intended outcomes. Some users need this information for decision-making purposes (e.g. whether to provide further funding/donations to the entity), while others need it for accountability purposes.

21. These differing user needs can influence the type of information considered most useful. As a result, sector-based reporting frameworks may enable reporting requirements to be more closely aligned with the objectives, accountability relationships and information needs of different types of entities.

Public sector and not-for-profit entities

22. The rationale for the PBE concept was that entities whose primary objective is public benefit rather than financial return shared sufficiently similar reporting objectives and transactions to justify a common standards framework. Using a single PBE sector for public sector PBEs and private sector not-for-profit PBEs reflects:

    (a) their shared focus on public or community benefit;

    (b) similar types of transactions (particularly non-exchange transactions); and

    (c) overlapping user needs centred on accountability and stewardship.

23. While a single PBE sector also supports:

    (a) consistency in reporting across entities with similar objectives; and

    (b) efficiency in standard-setting by avoiding duplication across closely related sectors.

Why are we looking at sectors?

24. 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.

25. 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.

Implications of current sector model

26. The current sector model was designed to improve the relevance of financial reporting by aligning reporting requirements with the objectives, transactions, accountability relationships and user needs of different types of entities.

27. While the model enables reporting requirements to be tailored to different types of entities, it also requires entities to be grouped into defined sectors by purpose. As a result, the current sector model has several implications:

    (a) sector boundaries can create classification challenges where entities have characteristics that span more than one sector (e.g. where an entity has multiple purposes that include generating financial returns and providing services for community benefit), resulting in judgement and complexity in applying the framework.

    (b) different reporting requirements across sectors can reduce comparability between entities that undertake similar activities but report under different frameworks.

28. Therefore, it is worth considering whether there are other approaches to determining sectors in the ASF that might reduce the challenges mentioned above, while still resulting in accounting standards that reflect the substance of entities' transactions and meet user needs.

Interaction with other elements of the ASF

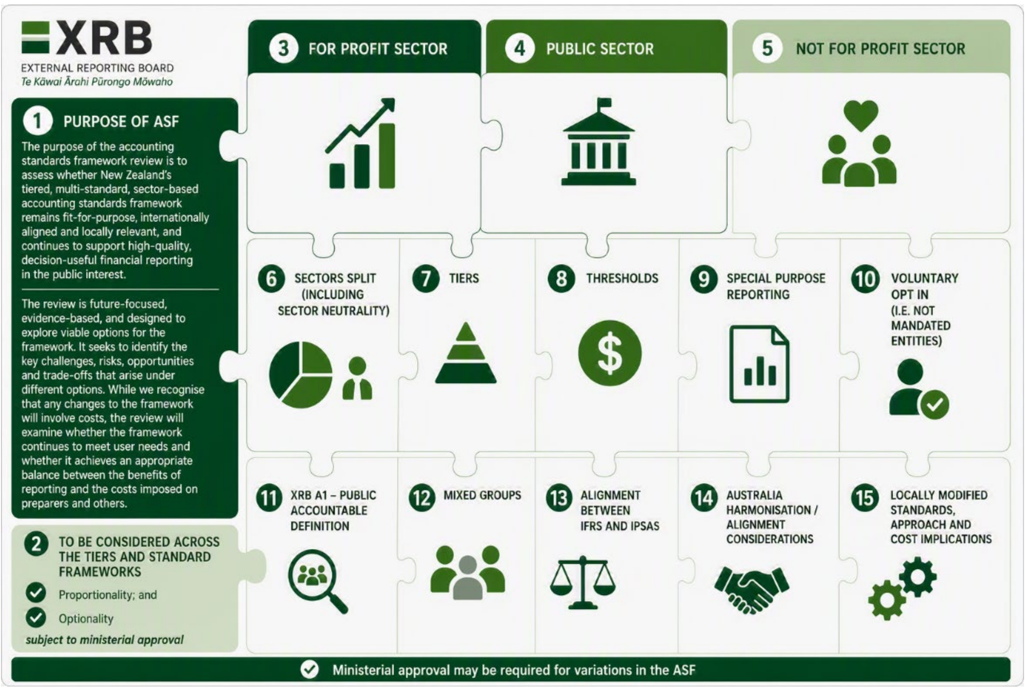
29. The significance of the sector model extends beyond determining how entities are classified. The sector model acts as the starting point for determining the reporting requirements that apply to an entity and influences the operation of other key components of the framework, including:

    (a) Tiering structures, which apply different levels of reporting requirements within each sector;

    (b) Thresholds, which determine eligibility for different tiers; and

    (c) Standards frameworks (e.g. IFRS-based vs IPSAS-based standards).

    The key elements of the ASF is depicted below, and depicts the interdependencies within:



30. As a result, changes to sector structure could have wider implications across the financial reporting system. Sector design therefore influences:

(a) the balance between relevance of reporting requirements to different entities and comparability across the reporting system;

(b) how effectively reporting requirements reflect the needs of different users and accountability environments;

(c) the complexity and understandability of the ASF for preparers, users, and other stakeholders;

(d) the consistency of reporting outcomes for similar activities and transactions; and

(e) the extent to which New Zealand's framework aligns with international approaches or reflects domestic circumstances.

31. Therefore, the concept of sectors is a key aspect of the current ASF and a key driver of the financial reporting outcomes arising from the ASF. It is important to consider whether any changes to this key aspect of the ASF might be beneficial.

Environmental factors relevant to sector design

Context and operating environment

32. The sector model operates within a wider legislative, economic, and political environment. While sector structure is a component of the ASF, it does not operate in isolation. Any changes to the sector model need to be considered alongside the broader settings in which financial reporting requirements are developed and applied.

33. Financial reporting forms part of the broader economic infrastructure that supports capital allocation, investor confidence, and fiscal credibility. As a small, open economy, New Zealand relies on access to international capital and investment to meet funding needs across the economy. New Zealand has historically been a net borrower from overseas and continues to maintain a significant net international investment liability position, reflecting an ongoing reliance on foreign capital. Government policy settings also increasingly emphasise attracting

high-quality foreign investment, primarily into the private sector, as a driver of productivity and economic growth. In this environment, confidence in New Zealand's economy and institutions may be influenced by factors such fiscal discipline, debt levels, economic resilience, transparency and quality of financial reporting. High quality financial reporting supports the transparency, comparability and credibility of New Zealand's financial reporting system, which in turn, may strengthen confidence in the wider economy, facilitate access to capital, and contribute to a lower cost of capital over time.

34. However, the relevance of these considerations varies across different reporting entities:

(a) For-profit entities, particularly larger or publicly accountable entities, are often more directly connected to capital markets and international investors, and therefore may place greater importance on international comparability and investor-focused reporting.

(b) Public sector entities are linked to international capital more indirectly, through sovereign borrowing and broader fiscal credibility.

(c) Not-for-profit entities are generally more domestically funded and tend to emphasise accountability to donors, funders, members, and beneficiaries rather than international comparability, except where cross-border funding or operations are significant.

35. These differences influence the information needs of users and the reporting outcomes expected from financial reporting.

36. Sector design also exists within a wider legislative and policy framework. While the ASF distinguishes between for-profit entities and PBEs, legislation, regulation and public policy distinguish between more precise groups of entities (such as commercial, public sector, charitable or community-based entities). This is evidenced by the different accountability, governance and reporting expectations set within legislation.

37. Public sector entities are accountable for the stewardship of public resources, while not-for-profit entities are increasingly subject to governance and accountability requirements reflecting their public or community role. For-profit entities are more commonly accountable to investors, creditors and other market participants.

38. In addition to reflecting current circumstances, the ASF should remain sufficiently adaptable to accommodate future changes in the reporting environment. Reporting entities are operating within an environment characterised by ongoing economic, regulatory and technological change, evolving stakeholder expectations, increasing demands for transparency and accountability, and changing patterns of funding and service delivery. While it is not possible to anticipate all future developments, the sector model should be sufficiently robust and flexible to remain relevant as the operating environment evolves.

39. As a result, the design of the ASF, including its sector structure, needs to take account of relevant policy settings while considering the differing objectives, accountability relationships and operating environments of reporting entities. It should also support a framework that remains appropriate and resilient as those settings, environments and reporting populations continue to evolve.

International approaches to sector classification

40. Internationally, jurisdictions adopt a range of approaches to structuring financial reporting frameworks across different types of entities. In Appendix 2 we include an outline of the jurisdictions we have looked at to inform our considerations.

41. While there is no single dominant model, most jurisdictions differentiate, in some form, between commercial reporting environments and public sector and not-for-profit reporting environments.

42. Broadly, the approaches observed internationally can be described as:

    (a) multi-sector approaches, where different standards frameworks apply to different types of entities;

    (b) sector-neutral approaches, where a common standard framework is applied across sectors but is modified or supplemented for certain contexts; and

    (c) segmented approaches, where entity type, legal form, or factors aside from broader sectors leads to more specific differentiation.

43. Several themes emerge from the international comparison:

    (a) IFRS remains the dominant framework for for-profit entities, especially those with public accountability;

    (b) many jurisdictions use IPSAS or IPSAS-informed approaches for public sector reporting;

    (c) not-for-profit entities are treated differently across jurisdictions, sometimes within public sector frameworks, sometimes under IFRS-based frameworks, and sometimes under dedicated adaptations; and

    (d) jurisdictions that use a sector-neutral model generally include some form of sector-specific modification.

44. New Zealand's current model is not out of step with international practice in using IFRS for for-profit entities and IPSAS-based standards for PBEs, but it is distinctive in explicitly combining public sector and not-for-profit entities into a single PBE sector based on purpose.

45. The international evidence does not provide a single preferred approach. Instead, it indicates that different jurisdictions have adopted a range of different solutions that provide an acceptable balance in their respective environments.

46. Australia provides an example of this. Australian Accounting Standards are based on IFRS Accounting Standards and apply across for-profit, public sector and not-for-profit entities. However, those standards contain additional public sector and not-for-profit requirements and guidance in areas where sector-specific transactions or reporting considerations arise.

47. As a result, while the Australian framework uses a common standards base, it continues to distinguish between sectors through modifications and additional requirements within the standards themselves.

Challenges with the current sector model

48. Based on stakeholder feedback, we have observed a number of practical challenges associated with the current sector structure.

49. These challenges include:

    (a) Structural complexity of the sector classification and wider accounting standards framework;

    (b) Sector classification difficulty arising from mixed objective, or mixed funding, or mixed structures;

(c) Misalignment of reporting requirements and resulting consequences, including mixed groups; and

(d) Pace of change in operating, reporting and regulatory environments., and the impact on sector classification.

50. These challenges do not necessarily suggest that the current sector model should be replaced. However, they may identify areas where the existing model may not operate as effectively as intended and help inform whether changes to the sector structure or its implementation should be considered.

Structural complexity

51. Structural complexity arises in the current ASF as it requires entities to move through a series of classification steps to determine the applicable reporting framework.

52. This complexity arises not only from the existence of multiple sectors, but also from the way sector classification is determined. In particular:

(a) A two-sector classification model that leads to three outcomes – The current ASF is described as a two-sector model comprising for-profit entities and PBEs. However, in practice the classification process results in three groups of entities: for-profit entities, public sector PBEs and not-for-profit PBEs. This can create a perception that the framework operates as a three-sector model.

(b) A two-stage classification mechanism – Classification is determined through a two-stage process. Entities are first assessed against a purpose-based definition to determine whether they are a PBE and, if so, are then assessed against a sector-based definition to determine whether they are a public sector PBE. While this mechanism is fundamental to how the sector model operates (including allowing for for-profit public sector entities to remain within the for-profit framework), it can add complexity to the classification process.

Classification difficulty

53. The ASF relies on each reporting entity being able to assess its primary objective in order to determine its sector classification, using a substance-over-form approach (i.e. legal form is not determinative in assessing whether an entity is a for-profit entity or a PBE). While many entities can be readily classified, challenges tend to arise for entities with mixed objectives, mixed funding arrangements or complex organisational structures.

54. In these circumstances, applying a purpose-based definition of a PBE requires a significant level of judgement, and identifying a single dominant purpose may be difficult, particularly where commercial and public benefit objectives coexist. XRB A1 outlines indicators that can assist in making these assessments, but in these types of circumstances indicators can often compete.

55. This challenge has practical consequences for preparers, auditors, regulators and users. Uncertainty regarding the appropriate sector classification can create uncertainty about the reporting requirements that apply, increase the demand for detailed guidance and interpretation, and result in similar entities reaching different classification conclusions.

56. However, classification difficulties may be significant for affected entities but may not be widespread across the reporting population.

Consequences of misalignment

57. Misalignment occurs where the reporting requirements resulting from sector classification do not appropriately reflect an entity's objectives, users, transactions, or accountability relationships. This may arise because the application of sector boundaries results in similar entities being treated differently because of judgement being applied. Where misalignment occurs, costs of reporting may increase, and similar entities or similar transactions may be reported differently, reducing comparability.

58. Misalignment may also arise at a group reporting level where entities within the same reporting group apply different reporting frameworks and must subsequently be consolidated into a single set of financial statements (commonly referred to as a mixed group).

59. Mixed groups can create additional practical challenges for preparers, auditors and users. Consolidation may require adjustments and reconciliations across different recognition, measurement and disclosure requirements of the two sectors, increasing compliance effort and complexity. In some circumstances, the resulting consolidated financial statements may be less useful than if a common reporting framework had been applied throughout the group.

60. Please see the Mixed Groups memo agenda item 6.1c for further analysis and detail on these issues.

Pace of change

61. The operating, regulatory and reporting environment in which the ASF operates continues to evolve. This is seen through the extension of XRB accounting requirements to new entity types (due to changes in primary legislation, e.g. the Incorporated Societies Act 2022 recently resulted in some incorporated societies having to adopt XRB standards), more diverse organisational structures, changing funding and service delivery models, and differing accountability expectations.

62. The pace and cumulative effect of these changes can place increasing pressure on the current sector model by creating circumstances that may not have been envisaged when the ASF was originally developed. As the ASF requires entities to continually assess their sector classification, changes in objectives, organisational structure, funding arrangements, service delivery models or accountability relationships may increase the complexity of applying the sector model and, in some cases, result in transitions between reporting frameworks.

63. Over time, this can increase costs across the reporting ecosystem and heighten the risk of misalignment between reporting requirements and the circumstances of the entity.

64. This suggests that sector design should be considered not only against current reporting challenges, but also in light of how New Zealand's reporting landscape may continue to evolve over time.

Sector options

65. In response to user needs and the practical challenges and wider contextual factors identified throughout this paper, we have identified four sector structure options for further consideration:

    (a) two-sector model;

    (b) a sector-neutral (common framework) model;

    (c) a three-sector model;

    (d) a segmentation approach.

66. These options are not intended to represent an exhaustive list of all possible sector configurations. Rather, they represent different approaches to organising the ASF and addressing the challenges identified.

67. The options differ primarily in the degree to which reporting requirements are differentiated between entities. At a high level:

    (a) the sector-neutral model represents the least differentiated approach;

    (b) the segmentation approach represents the most differentiated approach; and

    (c) the two-sector and three-sector models sit between these two ends of the spectrum.

68. In assessing the relative strengths and weaknesses of the different sector design options, we have considered:

    (a) User needs, decision useful information, and accountability – the extent to which a sector option supports the provision of understandable and decision-useful information that meets the needs of users and reflects differing accountability relationships.

    (b) Proportionality – the extent to which a sector option enables reporting requirements to be proportionate to the needs of users across entities with different objectives, transactions, and accountability relationships.

    (c) Simplicity – the extent to which a sector option is understandable and capable of being applied consistently in practice.

    (d) Comparability – the extent to which a sector option supports comparability between entities where appropriate.

    (e) Specific costs - including transition costs associated with moving to a new sector model, ongoing application costs of a sector model, and the complexity and cost of maintaining reporting frameworks.

69. The relative significance of these factors may differ depending on the size, tier, public accountability and circumstances of the entities affected. Accordingly, the costs and benefits of each option are considered at a system-wide level rather than from the perspective of any single stakeholder group.

Option 1 – Two sector model

70. Under this option entities are classified as either for-profit entities or PBEs.

Sector	Classification basis
For-profit	Entity is not a PBE
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE

71. Each sector would apply a framework specific for their sector.

72. This option preserves the existing conceptual distinction between entities whose primary objective is to generate financial returns and entities whose primary objective is to provide goods or services for community or social benefit. It therefore retains sector differentiation based on the purpose of an entity and reflects the view that differences in objectives, accountability relationships and user needs continue to justify different reporting frameworks for for-profit entities and PBEs.

73. For detail on the analysis of Option 1, please see Appendix 2.

74. Overall, Option 1 performs strongly against user needs, accountability and transition cost considerations, while providing stability and continuity for the reporting system. However, it does not fundamentally address concerns relating to comparability, classification complexity, mixed-group reporting, or the continued appropriateness of a combined PBE sector. Instead, it assumes that these issues can be managed through targeted refinement of the existing model rather than sector redesign.

75. We consider that Option 1 is a viable option for consultation.

Option 2 – Sector neutral (common framework) model

76. Under this option, the ASF would move away from formal sector distinctions and instead apply a single, unified financial reporting framework. This could be anchored in IFRS Accounting Standards, or in a locally modified framework, but in either case the distinction between for-profit entities and PBEs would cease to be the primary organising principle of the ASF.

Sector	Classification basis	Standards framework
All entities	N/A (However, if the single suite of standards contains some modified requirements or exemptions that apply only to specific entities, e.g. PBEs, then entities may still need to consider their classification for the purpose of determining whether these modified requirements/exemptions apply.)	A common reporting framework, such as NZ IFRS or locally modified framework. May still require sector-specific modifications, adaptations or guidance where PBE reporting issues or transactions arise, for example: • Tax collections; • Non-exchange transactions; • grants; • donations; • appropriations; • concessionary transactions; • impairment of non-cash-generating assets • service performance reporting.

77. As part of considering a sector-neutral model, staff have prepared a high-level comparison of new and upcoming IPSAS Standards with equivalent IFRS Accounting Standards where such IFRS requirements exist. This comparison is relevant to the sector-neutral consideration as it is intended to help assess the implications of using an IFRS-based standards framework for PBEs, rather than continuing to use IPSAS-based PBE Standards.

78. The comparison indicates that many IPSAS requirements are aligned with IFRS Accounting Standards where appropriate. However, it also identified areas where IFRS Accounting Standards do not comprehensively address PBE-specific transactions or reporting matters, including revenue from transactions without binding arrangements, transfer expenses, tangible natural resources held for conservation, and measurement of assets held for operational capacity. Accordingly, an IFRS-based sector-neutral model would still require the NZASB to consider whether PBE-specific modifications, guidance or supplementary requirements would be needed.

79. This paper does not include the IFRS/IPSAS comparison in detail. However, the findings are relevant to the assessment of sector-neutrality because they demonstrate that a common framework may reduce sector classification complexity, but would not necessarily remove the need to address PBE-specific reporting considerations. The implications of those findings will be considered in more detail when the Board considers PBE standards framework options at a future meeting.

80. Additionally, it should be noted that our considerations of standard framework options for the different sectors and tiers, include IFRS and locally modified standards as viable options. This serves as a reference point for the sector-neutral model in our framework standards considerations where we analyse these options against key criteria and compare it to other viable options. This will be considered further as part of the standards framework analysis which is commenced in agenda items 8.1b and 8.1c.

81. The rationale for the sector-neutral option is that many of the challenges identified in the current model are associated with the differentiation of reporting requirements between sectors. By reducing or eliminating sector distinctions, this option seeks to improve comparability, reduce classification and boundary issues, and create a more coherent reporting system.

82. This option reflects the principle that similar transactions should generally be reported in a similar manner regardless of the type of entity undertaking them, unless there is a compelling reason for different reporting requirements.

83. For detail on the analysis of Option 2, please see Appendix 2.

84. Overall, Option 2 simplifies the sector structure and performs strongly against comparability, and simplicity considerations, while directly addressing many of the classification and boundary issues associated with the current model. However, it raises important questions about how differing user needs, accountability requirements and public-benefit reporting considerations would continue to be accommodated within a common framework.

85. In practice, achieving a common framework will likely require additional sector-specific modifications, guidance or adaptations within the standards themselves. This raises the question, how extensive are the modifications needed, and at what point does the framework effectively becomes a multi-sector framework again.

86. We consider that Option 2 is a viable option for consultation. It provides a clear alternative to the current model and enables stakeholders to consider whether the benefits of greater comparability, consistency and simplification outweigh the benefits of maintaining sector differentiation.

Option 3 – Three sector model

87. Under this option, the current PBE sector would be disaggregated into two distinct sectors, producing a three-sector ASF comprising:

    (a) for-profit entities;

    (b) public sector entities; and

    (c) not-for-profit (or broader for-purpose) entities.

Sector	Classification basis
For-profit sector	Meets a for-profit definition For illustrative purposes this could be based on: • generating financial returns for equity holders

	• being publicly listed or publicly accountable as per XRB A1
Public sector	Meets a public sector definition (refer to paragraph 93 below) For illustrative purposes this could be based on: • Subject to Public Audit Act 2001 • Other public sector factors • Excluding publicly listed entities or publicly accountable entities as per XRB A1
Not-for-profit or for-purpose sector	Meets a not-for-profit or for-purpose definition (refer to paragraph 93 below) For illustrative purposes this could be based on: • pursuit of social, community, cultural or public benefit objectives, • accountability to donors, funders, members or beneficiaries • Excluding publicly listed entities or publicly accountable entities as per XRB A1

88. A key consequence of this option is that each of the three distinct sectors above would likely be subject to a distinct suite of accounting standards and therefore distinct accounting requirements. This is different to Option 1 (and the current ASF approach), where public sector and not-for-profit PBEs are largely subject to similar accounting requirements with limited differences. Also, under Option 3, entities classified as 'public sector' would apply the same suite of standards regardless of whether their primary objective relates to public benefit or generating financial returns (other than publicly listed or publicly accountable public sector entities). This is also different to Option 1 (and the current approach), where the accountings standards that apply to a public sector entity depends on its primary objective.

89. The rationale for this option is that, while public sector and not-for-profit entities share a public benefit orientation, they may have sufficiently different objectives, accountability relationships, funding models and user needs to justify separate treatment within the ASF.

90. In this context, the option also raises the question of whether the not-for-profit sector should be viewed more broadly as a "for-purpose" sector, recognising the diversity of entities that operate primarily to achieve social, community or public benefit outcomes rather than generate financial returns or that make up part of the public sector.

91. The three-sector option is broadly consistent with aspects of New Zealand's broader legislative, regulatory and policy framework, which often considers public sector entities, not-for-profit entities and for-profit entities as distinct groups with different governance, accountability and reporting expectations.

92. This option would make sector differentiation a key organising principle of the ASF, and replace the existing purpose-based distinction between for-profit entities and PBEs with a set of sector boundaries that separately identify for-profit entities, public sector entities and not-for-profit (or for purpose) entities.

93. The effectiveness of this option would depend significantly on how sector boundaries are defined and applied in practice. A key design consideration would therefore be whether workable definitions can be developed that appropriately distinguish the three sectors and minimise overlap. Potential approaches could include:

    (a) A public sector entity boundary based on those entities subject to the Public Audit Act 2001 or based on factors such as public ownership or control, statutory establishment, accountability to Parliament, Ministers, local authorities, ratepayers or taxpayers, or responsibility for delivering public services. Excluding publicly listed or publicly accountable entities as per XRB A1.

(b) A broader for-purpose boundary based on factors such as the pursuit of social, community, cultural or public benefit objectives, and accountability to donors, funders, members or beneficiaries, and operation outside government control. Excluding publicly listed or publicly accountable entities as per XRB A1.

(c) A for-profit boundary based on generating financial returns for equity holders or being a publicly listed entity or a publicly accountable entity per XRB A1.

94. The impact on mixed groups would depend significantly on how sector boundaries were defined and the distribution of entities across those boundaries. For instance, for-profit public sector entities that are currently classified as for-profit entities and apply NZ IFRS, may under a pure sector definition (rather than a two-stage purpose-based definition) be classified as public sector entities and be required to change frameworks. While at face value, this may ease mixed group issues at the whole-of-government level, the for-profit framework may be better suited to the reporting and user needs of these individual entities, especially where they may be publicly listed or have public accountability as defined in XRB A1. Indicatively, of the approximate 200 entities considered as for-profit public sector entities, approximately 50 may be publicly accountable. This would also need to be a consideration for other entities, as there may be other unintended consequences, that could arise from changing frameworks such as tax treatments that refer to IFRS, balanced budget requirements, other commercial legislation that may tie obligations to certain elements of the financial statements.

95. Accordingly, balancing sector design of this model will be critical to minimise potentially high transitional costs.

96. For detail on the analysis of Option 3, please see Appendix 2.

97. Overall, Option 3 recognises that the current PBE sector may be too broad to adequately reflect the diversity of public sector and not-for-profit reporting environments.

98. The option performs strongly against user needs, accountability and proportionality considerations by allowing reporting requirements to be more closely aligned to distinct sectors and stakeholder groups. However, these benefits must be balanced against the potential for increased complexity, additional sector boundaries, reduced comparability and higher transition and maintenance costs.

99. We consider that Option 3 is a viable option for consultation. It tests whether the benefits of greater sector-specific proportionality outweigh the costs associated with introducing an additional sector boundary and potentially additional reporting frameworks.

Option 4 – Segmentation approach

100. Under this option, the ASF would adopt a segmentation model that organises reporting requirements around specific groupings of entities based on factors such as mandate, operating environment, funding sources, accountability arrangements, or user characteristics.

101. Examples of potential segments could include central government entities, local government entities, Māori entities, education entities, health entities, charities, member-based organisations. Each segment would be subject to a distinct set of accounting requirements.

102. The rationale for this option is that broad sector categories may not adequately reflect the diversity of objectives, operating environments, transactions, accountability relationships and user needs that exist across the New Zealand reporting landscape.

103. The central proposition of this option is that improvements in proportionality, accountability and user needs are best achieved through greater differentiation of reporting requirements, even if this results in a more complex overall framework.

104. For detail on the analysis of Option 4, please see Appendix 2.

105. Overall, Option 4 illustrates what increased differentiation could look like if the ASF were designed around increasingly specific user and accountability groups.

106. We do not consider that Option 4 is suitable for further development or detailed consultation. While it is theoretically appealing in terms of tailoring reporting requirements, the practical challenges relating to boundary-setting, implementation, maintenance and overall system coherence are likely to outweigh the potential benefits.

107. Accordingly, staff do not intend to develop this option further or include it as a viable option in the Discussion Paper. However, the Discussion Paper will note that the option was considered during the review and explain why staff concluded that its disadvantages outweigh its potential benefits. This will help stakeholders understand the options considered and the rationale for focusing consultation on the remaining viable alternatives.

Implementation considerations

108. Any changes to the sector model would have implications for entity classification and may affect the financial reporting requirements that apply to some entities. The feasibility, timing and implementation pathway for any preferred option would require further consideration.

109. This would include consideration of:

(a) the extent to which changes fall within the XRB's mandate;

(b) interactions with existing legislative and regulatory settings;

(c) whether consequential amendments to legislation, regulations or other instruments would be required;

(d) whether Ministerial approval would be required for particular changes; and

(e) appropriate transition arrangements for affected entities.

110. These implementation considerations have not been assessed in detail as part of the preliminary option analysis but would form an important part of any future development work.

Overall insight into sector analysis

111. The analysis suggests that there is not one clearly superior model. Rather, each option reflects a different balance of strengths and weaknesses and responds differently to the challenges observed under the current framework.

(a) Option 1 (two sector model) preserves stability and current benefits but leaves current issues largely intact.

(b) Option 2 (sector-neutral model) simplifies the framework but raises questions about how PBE reporting needs would be accommodated.

(c) Option 3 (three sector model) provides greater differentiation between public sector and not-for-profit reporting environments, potentially improving the relevance of financial statements in these sectors, but introduces additional boundaries which could be a source of complexity.

(d) Option 4 (segmentation model) maximises the tailoring of reporting requirements to more granular groups of entities, potentially enhancing relevance of financial statements, but at the cost of coherence and comparability – *Not considered a viable option as the benefits are likely to not outweigh the costs*.

(e) The table below reflects the result of our analysis

112. The options sit on a spectrum between greater integration and comparability on one hand, and greater differentiation and proportionality on the other.

113. The analysis indicates that the choice of sector structure is ultimately a question of where complexity is best located within the financial reporting system, and what trade-offs are considered acceptable in New Zealand's environment.

114. The table below summarises staff's assessment of each option and the key factors informing that assessment.

Sector Options	Recommendation	Key drivers of the assessment		
1. Two-sector – For-profit and PBEs	**Option in DP**	Maintains stability and sector relevance with low disruption	Entrenches existing complexity on boundary clarity	Limits system-wide efficiencies
2. Sector-neutral model	**Option in DP**	Strengthens comparability, framework simplicity and system-wide capability	Risks reduced relevance for public benefit entity reporting	Will introduce transition complexity
3. Three sectors – For-profit, public sector and for-purpose (NFP)	**Option in DP**	Improves conceptual alignment to policy design and relevance by distinguishing between public sector and for-purpose entities	Increases structural and classification complexity through additional sector boundaries	Introduces system fragmentation and duplication in standard-setting and capability
4. Segmentation approach	**Not recommended**	Maximises relevance through highly tailored,	Introduces significant structural complexity through multiple segments	Reduces overall system coherence and efficiency due to

		segment-specific reporting	and boundary definitions	fragmentation, duplication, and user navigation challenges

115. We must also acknowledge that while sector boundaries are a source of challenge within the ASF, they support differentiation where differences in objectives, accountability relationships and user needs are important. Therefore, it may be considered an acceptable cost for the benefits obtained.

116. Complexity is not eliminated under any option; rather, it is redistributed within the financial reporting system. Under the two-sector model, complexity arises through classification and mixed groups. Under a sector-neutral model, complexity may shift into the need to apply or adapt a unified framework across diverse entities, or the inclusion of sector-specific requirements within a common framework. Under more differentiated models, complexity arises through additional boundaries, segment definitions, multiple reporting frameworks, and maintenance burdens.

117. The international review (per Appendix 2) also suggests that differences between for-profit and public benefit reporting environments are recognised in most jurisdictions, although those distinctions are reflected in different ways. This reinforces the broader insight that sector-specific reporting considerations do not disappear under alternative models; rather, different frameworks locate complexity and judgement in different places. The issue is therefore not whether the system can be made simple in an absolute sense, but what type of complexity is most acceptable and manageable in New Zealand's environment.

Implications for the discussion paper

118. The analysis suggests that the sector review should not be presented as simply a question of how entities should be classified. Rather, sector structure is a foundational element of the ASF and influences how other parts of the financial reporting system operate.

119. Accordingly, the Discussion Paper should frame the review as a broader system design question that considers:

    (a) why sector distinctions exist;

    (b) the challenges observed under the current model;

    (c) the alternative approaches available;

    (d) the implications of those approaches for the wider ASF; and

    (e) the trade-offs associated with each option.

120. The analysis also suggests that no sector model is clearly superior in all circumstances. Instead, the options reflect different balances between user needs, accountability, proportionality, comparability, simplicity and cost.

121. Consultation should therefore seek views not only on individual sector options, but also on the priorities and outcomes stakeholders consider most important for the future development of the ASF.

122. In particular, consultation may help inform:

    (a) the extent to which sector differentiation remains desirable within the ASF;

(b) how PBE reporting should be reflected in the framework;

(c) the relative importance of comparability, accountability, simplicity and proportionality;

(d) whether additional differentiation between public sector and not-for-profit entities is warranted; and

(e) the implications of alternative sector models for standards frameworks, tiering arrangements and future ASF development.

123. The Board may also wish to consider whether consultation should be staged. For example, an initial consultation could focus on sector architecture and higher-level system design questions, with more detailed considerations addressed in a later phase, refer to agenda item 5.1a where this is covered in more detail.

124. See Appendix 1 for an example of how this framing might be reflected in the Discussion Paper.

Suggested discussion paper questions

125. The following questions are illustrative of matters that could be explored through consultation in the Discussion Paper.

Sector differentiation

(a) How important is it that reporting requirements differ between sectors to reflect differences in user needs, accountability relationships and operating environments?

(b) Should public sector and not-for-profit entities continue to be grouped within a single PBE sector (and be subject to broadly similar accounting requirements), or do their differing objectives, accountability relationships and user needs justify separate sectors? Why or why not?

Alternative sector models

(c) Having regard to the advantages and disadvantages outlined in the Discussion Paper, which sector model do you consider most appropriate for New Zealand's future financial reporting framework? What are the primary reasons for your preferred approach?

(d) Are there trade-offs associated with your preferred model that you consider acceptable? If so, what are they?

Other approaches

(e) Are there alternative approaches to sector design that should be considered?

Questions for the Board

(1) Does the Board have any FEEDBACK on the supporting analysis of the sector structure and options?

(2) Does the Board AGREE with the assessment of viable sector options (Options 1, 2 and 3) for inclusion in the ASF Discussion Paper?

(3) Does the Board have any FEEDBACK on the direction of the proposed framing of the analysis of sector options for consultation in the ASF Discussion Paper?

(4) Does the Board have any FEEDBACK on the direction of the proposed sector consultation questions for inclusion in the ASF Discussion Paper?

Appendix 1

Excerpt of possible Discussion Paper

Multi-sector structure

Why does sector structure matter?

The Accounting Standards Framework (ASF) currently uses a sector model to distinguish between for-profit entities and Public Benefit Entities (PBEs). Sector classification is the starting point for determining the financial reporting requirements that apply to an entity.

Sector distinctions exist because different entities may have different users, objectives and accountability relationships. These differences can influence the type of financial and non-financial information that is considered useful for accountability and decision-making purposes.

The current ASF therefore uses different reporting frameworks for for-profit entities and PBEs.

Why are we reviewing the sector structure of the ASF?

The current sector model has operated since 2012 and has generally provided a basis for aligning reporting requirements with the overall purpose of an entity.

However, a number of challenges have been identified, including:

- complexity in determining reporting requirements arising from the multiple layers of the ASF (e.g. sector, tier and resulting standards);
- difficulties applying sector boundaries where entities have characteristics of both for-profit and PBE sectors;
- challenges for mixed groups where entities within the same reporting group are subject to different reporting frameworks.
- Reduced comparability where similar entities apply differentiated reporting requirements; and
- changes in the operating, regulatory and reporting environment since the current model was introduced.

These challenges have prompted consideration of whether the current sector structure remains the most appropriate foundation for the ASF.

How do other jurisdictions approach sector structure?

There is no single international approach to sector structure. Jurisdictions use a range of models to distinguish between commercial, public sector and not-for-profit reporting environments.

Some jurisdictions use separate reporting frameworks for different sectors, while others apply a common framework supplemented with sector-specific requirements. New Zealand's current model is distinctive because it combines public sector and not-for-profit entities within a single PBE sector based on purpose.

Australia provides an example of a more integrated approach. Australian Accounting Standards are based on a common suite of IFRS-based standards that apply across sectors. However, additional requirements and guidance are included where public sector or not-for-profit transactions and reporting issues need to be addressed.

This illustrates that sector-specific reporting needs can be accommodated either through separate sector frameworks or within a common standards framework. The international evidence does not point to a single preferred model, but rather different ways of balancing comparability, accountability, simplicity and sector-specific reporting needs.

Sector approaches

To address these challenges and to consider what is fit for purpose now and into the future, we have identified several approaches for consideration.

Option 1 – Two-sector model

This option distinguishes between for-profit entities and PBEs for financial reporting purposes.

Sector	Classification basis
For-profit	Entity is not a PBE
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE

Potential strengths

- Well understood and embedded in current practice in New Zealand, reduces disruption of changing the current sector approach
- Supports sector-specific reporting needs (considering differences in typical transactions and user needs in the respective sectors)

Potential weaknesses

- Ongoing classification challenges and mixed-group reporting issues
- Comparability concerns where similar entities apply different reporting frameworks
- Public sector and not-for profit entities grouped together in one sector, but distinct features

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option maintains the current approach, and targeted refinements would be required to address current issues rather than structural change.

Option 2 – Sector-neutral (common framework) model

Move towards a common reporting framework across entities.

Under this approach, the distinction between for-profit entities and PBEs would no longer be the primary organising principle of the ASF. Different entities would generally report under a common framework (e.g. NZ IFRS or locally modified standards), although additional requirements or modifications will be required where sector-specific circumstances arise.

Sector	Classification basis
All entities	N/A

Potential strengths

- Improves comparability across entity types.
- Simplifies sector classification.

Potential weaknesses

- May not fully reflect sector-specific reporting needs
- Risk that complexity moves into application of the standards rather than sector classifications as sector-specific modifications or guidance may be required.

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option places greater emphasis on comparability, consistency and simplicity by reducing sector differentiation.

Option 3 – Three-sector model

Separate the current PBE sector into distinct public sector and not-for-profit (or for-purpose) sectors.

Under this approach, the ASF would recognise public sector entities, not-for-profit (or for-purpose) entities and for-profit entities as separate sectors that would be subject to different accounting requirements. This reflects the view that public sector and not-for-profit entities may have sufficiently different objectives, accountability relationships and user needs to justify separate treatment.

Sector	Classification basis
For-profit sector	Meets a for-profit definition For illustrative purposes this could be based on: • generating financial returns for equity holders, • being publicly listed or publicly accountable as per XRB A1
Public sector	Meets a public sector definition For illustrative purposes this could be based on: • Subject to Public Audit Act • Other public sector factors • Excluding publicly listed entities or publicly accountable entities as per XRB A1
Not-for-profit or for-purpose sector	Meets a not-for-profit or for-purpose definition For illustrative purposes this could be based on: • Pursuit of social, community, cultural or public benefit objectives, • Accountability to donors, funders, members or beneficiaries • Excluding publicly listed entities or publicly accountable entities as per XRB A1

Potential strengths

- Better reflects differences in reporting purpose and user needs between public sector and not-for-profit entities.
- Enables more targeted standard-setting

Potential challenges

- Introduces an additional sector boundary, and could increase classification complexity.

- May require development and maintenance of additional requirements.

For more detail on the analysis of this option, see [placeholder for relevant section reference].

This option places greater emphasis on tailoring reporting requirements to the differing objectives, accountability relationships and user needs of those sectors.

Other approaches considered

We also considered whether reporting requirements could be organised around more specific groups of entities, such as charities, local government entities, Māori entities, education entities or health entities.

While this could allow reporting requirements to be more closely tailored, it would introduce additional classification boundaries, increase complexity of the ASF and accounting requirements and reduce comparability between reporting entities' financial statements. It could also create ongoing pressure to add, remove or redefine segments over time.

On balance, this approach has not been considered a viable option as part of this review.

Balancing benefits and costs

The options presented do not necessarily represent a choice between a superior model and weaker alternatives. Rather, they reflect different ways of balancing benefits and costs and the objectives of the ASF.

Questions for stakeholders

1. How important is it that reporting requirements differ between sectors to reflect differences in user needs, accountability relationships and operating environments?
2. Should public sector and not-for-profit entities continue to be grouped within a single PBE sector (and be subject to broadly similar accounting requirements), or do their differing objectives, accountability relationships and user needs justify separate sectors? Why or why not?
3. Having regard to the advantages and disadvantages outlined above, which sector model do you consider most appropriate for New Zealand's future financial reporting framework? What are the primary reasons for your preferred approach?
4. Are there trade-offs associated with your preferred model that you consider acceptable? If so, what are they?
5. Are there alternative approaches to sector design that should be considered?

Appendix 2

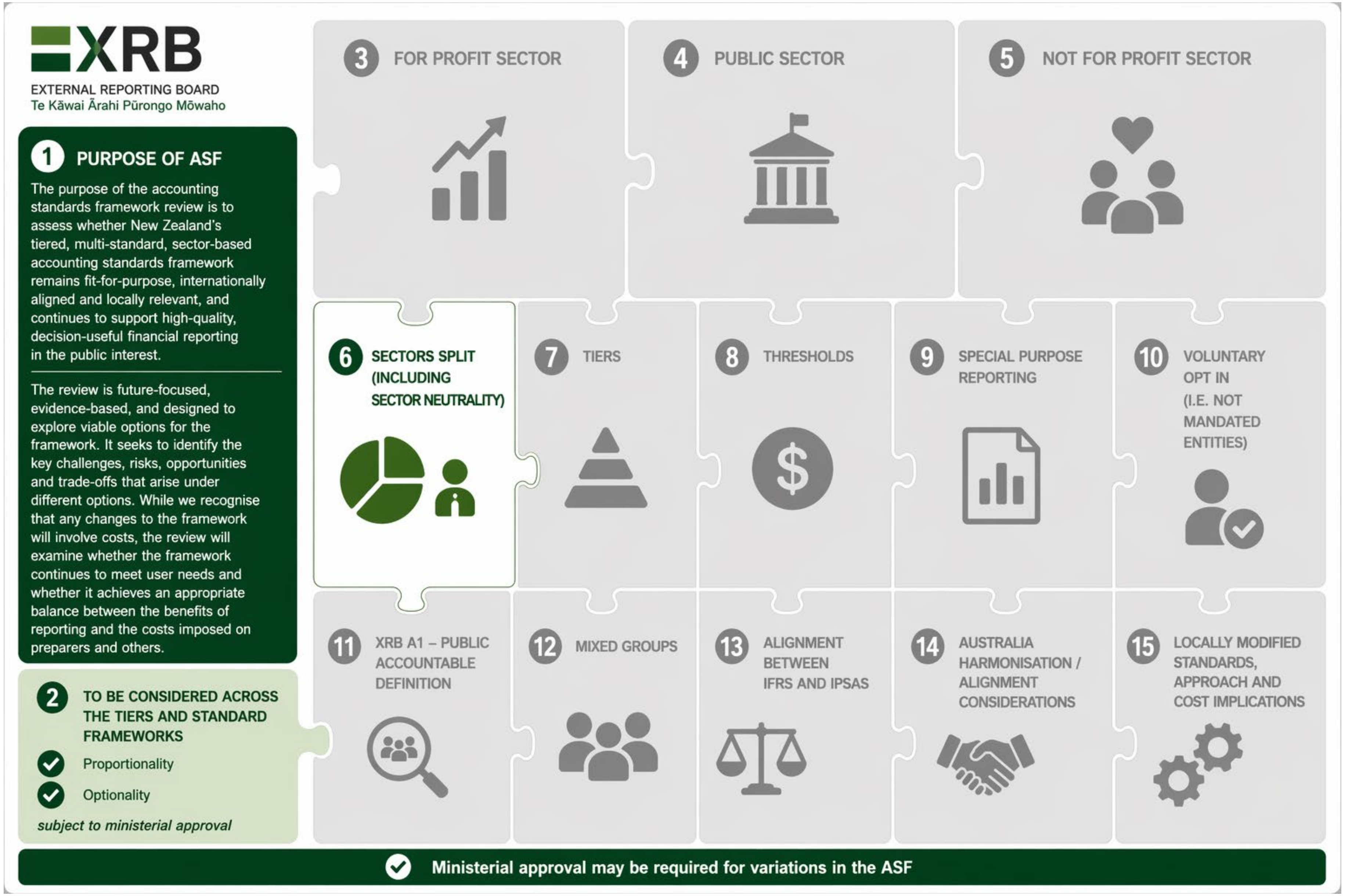
For an overview of the information within this paper, refer to the following Sector slides.

For the particular information referred to within the paper, see the following:

- the international perspective on sector classification, see Appendix 4 of the attached slides
- the detailed analysis of sector options, see Appendix 5 of the attached slides

Sectors

Sectors


XRB
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

Background – rationale for sector approach in the ASF

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

BEFORE 2012

Sector-neutral approach

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

2009 – 2012

Concerns raised at the time

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

2012 ONWARDS

Multi-sector approach

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

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

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

Current economic context – New Zealand's operating environment and international capital

Consideration may be required as to whether the current sector-based framework appropriately reflects New Zealand's need to maintain credibility, transparency, and comparability in global capital markets, in addition to domestic accountability objectives.

1. Structural reliance on international capital

- New Zealand's net international investment liability position at Dec 2025 was $197bn (Sep 2025 - $202.9 bn) (Stats NZ)
- New Zealand recorded a current account deficit of $16.3bn (3.7% of GDP) for the year ended Dec 2025 (Dec 2024: $20bn, 4.7% of GDP, reflecting ongoing reliance on foreign capital inflow (Stats NZ)
- Persistent net international investment liability position and current account deficits have resulted in New Zealand being a net borrower, with international investors playing a key role in funding domestic economic activity.

2. Investor confidence and economic credibility

- Reliance on foreign capital links New Zealand's cost and access to funding to investor confidence.
- Confidence may be influenced by fiscal discipline and debt levels, transparency and quality of financial reporting and broader economic resilience
- Rating agencies Moody's and Fitch revised New Zealand outlook to negative (2026), reflecting rising debt, delayed fiscal consolidation, and weaker growth.
- OECD similarly highlights a more uncertain global environment, increasing the importance of fiscal credibility and sustained investment (OECD Economic Survey New Zealand 2026)

3. Attracting international investment

- Government policy settings increasingly emphasise attracting high-quality foreign investment, primarily into the private sector, as a driver of productivity and economic growth, access to capital and long-term economic resilience.
- Initiatives include measures to increase investment inflows, improve access to international markets and position New Zealand as an attractive destination for global capital

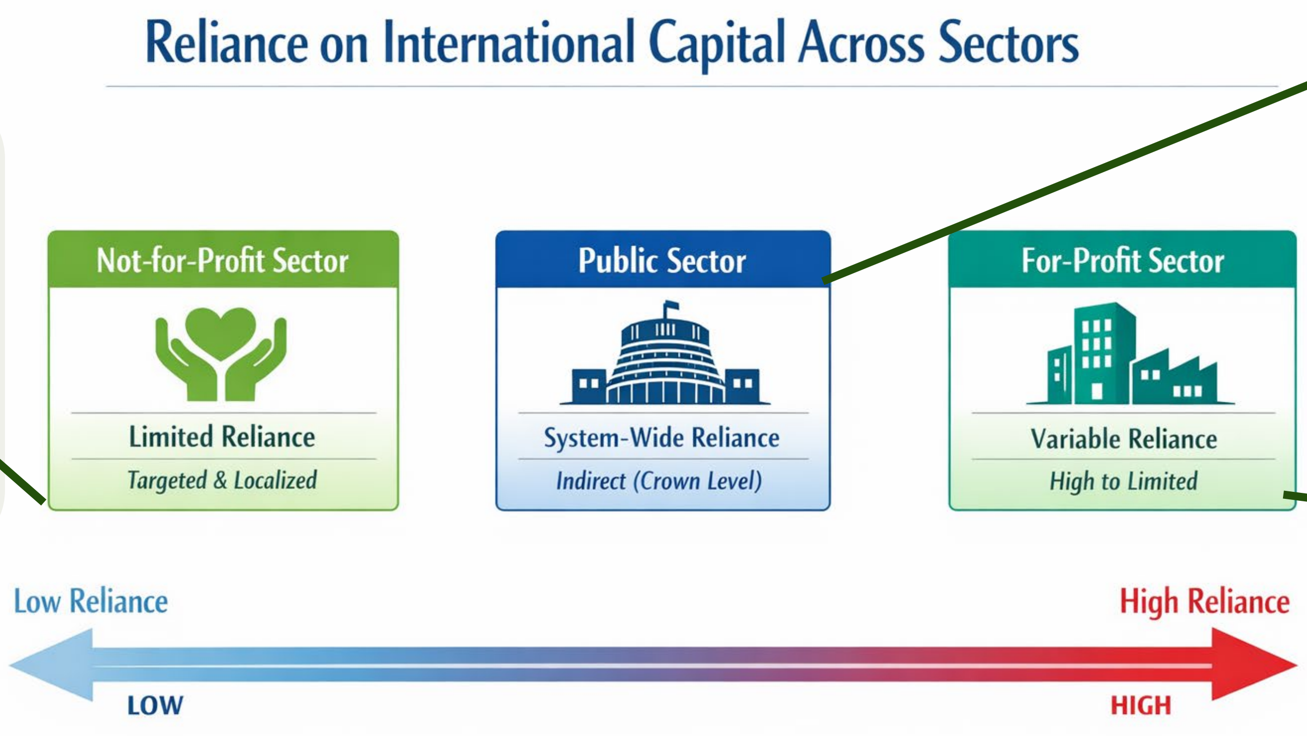
4. Ecosystem and compliance

- In this environment, financial reporting functions as part of the economic infrastructure supporting capital access
- High-quality reporting supports investor confidence and comparability, sovereign creditworthiness and efficient government borrowing
- Sector design is not only a technical choice, but it also has broader economic and strategic implications

International capital – sector comparison

While New Zealand's reliance on international capital is a system-wide feature, its significance varies across sectors, necessitating a more granular consideration of sector-specific impacts.

NFP sector
- Primarily funded through domestic sources (donations, grants, service delivery, government funding)
- International funding exists, but is:
  – targeted
  – not system-wide



Public sector
- The primary objective of the public sector is accountability to Parliament and the public, with investor confidence operating as an important system-level consideration.
- This sector relies on international capital primarily through sovereign borrowing and debt markets

For-profit sector
- Reliance on international capital varies across the sector, reflecting differences in size, ownership, and funding models
- T1 and internationally active entities are often directly reliant on global equity and debt markets.
- Many smaller and domestically focused entities may rely more on domestic funding sources

The extent of reliance on international capital varies materially by sector, but is most pronounced for publicly accountable for-profit entities (direct market engagement) and the public sector (via sovereign financing). This raises the question of whether the current sector framework appropriately reflects the differing user needs, and New Zealand's broader reliance on global capital markets.

To provide context for New Zealand's sector approach and varying reliance on international capital, staff have undertaken a comparison of international sector classification approaches - refer Appendix 4.

Sector model key challenges

As part of the review of the sector model, staff have identified challenges. These challenges reflect feedback from stakeholders, staff experience, and observed pressures within the reporting ecosystem. They help to frame why the standards framework is being reconsidered, while also considering how the issues will be best addressed.

1. Structural complexity

The framework requires multiple layers of intersecting considerations (sector, tier, and standards base) to determine reporting requirements, rather than a single, coherent decision pathway.

2. Classification difficulties

Classification difficulties arise because sector classification depends on judgemental assessments of an entity's primary objective and substance, which can be unclear or mixed in practice.

3. Mixed groups

Entities within the same group may fall into different sectors, requiring the application and reconciliation of multiple reporting frameworks within a single set of financial statements.

4. Consequences of misalignment

Inconsistencies can arise because similar entities may be classified differently, reducing comparability. This may also diminish the overall usefulness and relevance of financial reporting.

5. Pace of change

The operating, reporting and regulatory environment is evolving at an increasing pace which create pressure on preparers and the broader ecosystem to adapt and remain current.

IFRS to IPSAS: How NZ PBE Standards originate

The IFRS → IPSAS → NZ Pipeline

Many IPSAS standards begin as IFRS — IPSASB adds the public sector lens and absorbs the research cost before standards reach New Zealand; a sector-neutral approach would transfer that cost and work to NZ.

1

IFRS

International Accounting Standards Board (**IASB**)

- Issues IFRS Accounting Standards for profit-focused entities.
- Global baseline; but gaps remain for public-sector transactions.

2

IPSASB Adapts

International Public Sector Accounting Standards Board (**IPSASB**)

- Reviews & applies a public sector lens to each IFRS
- Adapts to fill gaps for public-sector transactions and context.

IPSASB bears the cost of research, adaptation & gap-filling — NZ does not need to fully reperform the research undertaken by IPSASB.

3

International Consultation

IPSASB — Global Exposure Drafts

- IPSASB issues exposure drafts and consults globally before finalising.
- NZ (XRB / NZASB) participates in this process.

4

NZ Consultation

XRB / NZASB — Domestic Review

- XRB / NZASB consults domestically on adoption
- Considers local context, modifications needed, and transitional provisions.

5

NZ PBE Standards

XRB — Issued for NZ Entities

- IPSAS-based standards issued, adapted for NZ context.
- Applied by govt, schools, councils & charities etc.

If Sector-neutral (IFRS-only)

- ⚠ NZ would no longer be able to leverage IPSASB's research and gap-filling work
- ⚠ NZ would need to consider domestic standards for public-sector topic IFRS does not cover (e.g. grants, natural resources, concessionary loans)
- ⚠ Cost and complexity of standard-setting currently borne internationally, would shift entirely to NZ

PBE Standards vs NZ IFRS — Key differences

The fundamental difference is who the standards are designed for and what transactions they cover. Some examples of differentiating factors can be seen below:

	NZ IFRS	PBE Standards
Who They Serve	**Profit-focused companies** generating returns. **Users**: investors, lenders, creditors.	**Public benefit entities** — councils, charities, government. **Users**: taxpayers, ratepayers, donors.
Built On	**IFRS** — International Financial Reporting Standards used in over 140 jurisdictions for public, profit making corporations, applied directly as NZ IFRS[1].	**IPSAS** — International Public Sector Accounting Standards, adapted for NZ.
What They Cover	Customer contracts, financial instruments, investor-focused reporting	Tax revenue, grants, donated assets, concessionary loans — plus commercial transactions.
How They Measure	Market-based concepts — what the assets can be sold for to market participants (e.g. fair value)	Additional service-potential concepts – some assets valued on their replacement cost (e.g. heritage buildings, schools, health buildings etc.).

[1] The NZ IFRS includes the same recognition, measurement, presentation and disclosure requirements as the international standard (with some additional disclosure concessions available).

Analysis between IPSAS upcoming changes vs IFRS

Several upcoming IPSAS standards address public-sector matters not covered by IFRS. A sector-neutral approach would leave NZ to determine how these matters should be addressed.

Aligned – minimal change needed | Partial – IFRS covers some but not all PBE activities/context | Gap – no IFRS equivalent; NZ to consider own PBE sector solutions

IPSAS Standard	IFRS Counterpart	Alignment	Implications of using IFRS as the sector-neutral foundation
Leases (IPSAS 43)	IFRS 16	Aligned	Preparers would be subject to similar requirements under IFRS and IPSAS[1].
Revenue (IPSAS 47)	IFRS 15	Partial	IFRS addresses contractual revenue, but not many PBE revenue sources such as taxes, rates, donations and grants. Additional NZ considerations would likely be needed.
Measurement (IPSAS 46)	IFRS 13	Partial	IFRS fair value focuses on price for which the asset would be sold to market participants – irrelevant/challenging to apply for roads, schools, hospitals, heritage assets. Additional NZ considerations would likely need be be needed for specialised PBE assets held to provide services, rather than financial return.
Transfer Expenses (IPSAS 48)	None	Gap	IFRS contains no equivalent requirements for grants and transfers made by public sector entities. New Zealand would need to develop its own reporting requirements.
Natural Resources (IPSAS 51)	None	Gap	IFRS contains no specific requirements for natural resources held for conservation (e.g. conservation land). We would need to consider in NZ whether additional guidance for such assets may be needed (in addition to existing requirements for property, plant and equipment).

NZ IFRS 18 *Presentation and Disclosure in Financial Statements* effective 1 January 2027 is currently being deliberated at IPSASB and is likely to come into IPSAS literature in the coming years.

[1] Considering NZASB past decision not to include IPSASB's requirements on concessionary leases in PBE Standards.

Summary of the IPSAS to IFRS transition and what it may mean for NZ PBEs

So far, staff compared the content of upcoming IPSAS standards with their IFRS counterparts when it comes to sector-neutrality, but the decision is also equally weighted by who carries the cost of developing and maintaining public-sector adaptations.

What the analysis shows

- Strong alignment in the core areas – many upcoming IPSAS standards already mirror IFRS, fully or partially.
- Differences are deliberate and sector-specific – IPSAS addresses public sector transactions IFRS does not (e.g. tax revenue, grants, concessionary arrangements).

Implication for sector neutrality

- Moving to IFRS does not avoid change or reduce complexity in the standards – PBEs face similar pressures under either model.
- IFRS alone would leave gaps – XRB would need to develop and maintain domestic adaptations for PBE transactions and context.
- IPSAS already builds in those adaptations through international due process.

Key insights for the Board

- Disruption is unavoidable under either approach – the real question is where the public-sector adaptation effort sits.
- Retaining IPSAS keeps adaptations within an internationally tested framework rather than building them domestically.
- Whilst the decision may be focused on IFRS vs IPSAS content, it's equally important to consider who carries the cost and effort of maintaining public-sector adaptations under sector neutrality.

Exploring alternative sector models for NZ

Approach to sector alternative options analysis explored

- Staff have identified a set of feasible sector model alternative options informed by the current framework and considering user needs, international approaches and observed challenges.
- Each option is assessed against the key design tensions to support a structured evaluation of its relative strengths, limitations, and implications for the New Zealand reporting environment – refer to Appendix 5 for the detailed options analysis.

Identified sector options

1. Two sectors - For-profit and PBE	2. Sector-neutral	3. Three sectors – For-profit, public sector and for-purpose (NFP)	4. Segmentation approach
Retains the existing distinction between for-profit entities and PBEs.	Alignment of principles and requirements across all sectors via a common framework.	Disaggregates PBEs to recognize for-purpose entities (currently referred to as NFP) as a distinct sector from the Public Sector.	Segmentation based on nature, function, or mandate, e.g. central and local government, Māori entities, schools/education, health, construction, etc.

Options analysis summary and feedback

Drawing on the detailed options analysis in Appendix 5, the table below outlines the key drivers for each option.

Sector Options	Recommendation	RAG rating	Key drivers of the assessment		
1. Two-sector – For-profit and PBEs	**Option in DP**	●	Maintains stability and sector relevance with low disruption	Entrenches existing complexity on boundary clarity	Limits system-wide efficiencies
2. Sector-neutral model	**Option in DP**	●	Strengthens comparability, framework simplicity and system-wide capability	Risks reduced relevance for public benefit reporting	Will introduce transition complexity
3. Three sectors – For-profit, public sector and for-purpose (NFP)	**Option in DP**	●	Improves conceptual alignment to policy design and relevance by distinguishing between public sector and for-purpose entities	Increases structural and classification complexity through additional sector boundaries	Introduces system fragmentation and duplication in standard-setting and capability
4. Segmentation approach	**Not recommended**	●	Maximises relevance through highly tailored, segment-specific reporting	Introduces significant structural complexity through multiple segments and boundary definitions	Reduces overall system coherence and efficiency due to fragmentation, duplication, and user navigation challenges

RAG rating:

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

Appendices

Accounting Standards Framework (ASF)

XRB levers

1. Two-sector approach

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

2. Tiered approach

Different accounting requirements based on cost-benefit considerations.

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

3. Multi-standards

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

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

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

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

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

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

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

Appendix 2 – Ministerial approval legislative requirements

Tiers of financial reporting

29 Tiers of financial reporting for different classes of reporting entities

(1) The purpose of sections 30 to 33 is to provide for a system of tiers of financial reporting that impose different financial reporting requirements in respect of different classes of reporting entities in order to ensure that the requirements that apply in respect of those entities are appropriate.

(2) In sections 30 to 33, **strategy** means—

(a) the strategy for establishing different tiers of financial reporting approved under section 34C of the Financial Reporting Act 1993 as in force immediately before the commencement of this section (with any variations approved under section 31); or

(b) a replacement of that strategy as approved under section 31.

30 Board must implement strategy for tiers of financial reporting

The Board must take reasonable steps to implement the strategy.

Compare: 1993 No 106 s 34A(2)

31Minister may approve variation or replacement of strategy

(1) The Minister may, after receiving a proposal for the variation or replacement of the strategy prepared by the Board under section 32, either approve or decline to approve the variation or replacement.

(2) The Minister may decline to approve the variation or replacement only if, in his or her opinion,—

(a) the Board has not had sufficient regard to the matters specified in section 32(1)(a); or

(b) the Board has not adequately consulted on the proposal under section 33.

Appendix 2 (continued) – Ministerial approval legislative requirements

32 Process for preparing proposals to vary or replace strategy

(1) In preparing a proposal for the variation or replacement of the strategy, the Board must—

(a) have regard to—

(i) the purpose referred to in section 29; and

(ii) the advantages and disadvantages of placing different classes of reporting entities within different tiers of financial reporting; and

(iii) which FMC reporting entities are considered to have a higher level of public accountability under section 461K of the Financial Markets Conduct Act 2013; and

(b) ensure that the strategy, after the variation or replacement takes effect,—

(i) specifies the qualifying criteria for each tier of financial reporting; and

(ii) describes the financial reporting requirements that will apply for each tier of financial reporting; and

(iii) includes any other prescribed matters.

(2) The description under subsection (1)(b)(ii) may refer to—

(a) a set of standards (for example, International Financial Reporting Standards and International Public Sector Accounting Standards):

(b) specific standards:

(c) accounting policies, principles, concepts, or methods (for example, the principles of accrual accounting):

(d) any combination of the matters in paragraphs (a) to (c).

(3) A proposal for the variation or replacement of the strategy must specify the Board's reasons (including why the variation or replacement is considered to be appropriate).

33 Consultation on proposals

(1) The Board must, in preparing a proposal for the variation or replacement of the strategy, take reasonable steps to consult the persons or representatives of persons who, in the opinion of the Board, would be substantially affected by the variation or replacement.

(2) However, the Board is not required to comply with subsection (1) in respect of a variation to the strategy if, in its opinion, the variation corrects a minor error or is otherwise of a minor nature.

(3) Any failure to comply with subsection (1) does not affect the validity of the variation or replacement.

Appendix 3 - Defining ASF sectors – current model

Current two-sector model

Sector Definitions per XRB A1 paragraph 6

The definitions used to determine whether an entity falls within the for-profit or PBE accounting standards frameworks are as follows:

Public Benefit Entity (PBE)

A reporting entity whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

For-Profit Entity

Any reporting entity that is not a public benefit entity.

Classification guidance – XRB A1 Appendix A paragraphs 1-38

Classification based on primary objective (substance over form)

- Legal form is not determinative
- Consideration is at the reporting entity level which may differ from group classification

Indicators used to assess classification

- Stated objectives
- Nature of benefits, including the quantum of expected financial benefits
- Primary beneficiaries of the benefits
- Nature of equity interest
- Purpose and use of assets
- Nature of funding

Classification may require judgement

Assessment may require judgement, particularly where objectives are unclear or mixed.

Conflicting indicators – assess collectively and focus on overall substance of purpose. Consider relative significance of each indicator (some may be less significant).

Changing classifications – XRB A1 Appendix A paragraphs 39-40

Classification may change if circumstances or objectives change. This requires reassessment of applicable reporting tier (XRB A1) and application of accounting requirements of the new classification, including first-time adoption.

Appendix 4 - International perspective on sector classification

This slide presents a comparison of selected jurisdictions' approaches to sector classification and standards frameworks. It highlights the degree of sector differentiation, alignment with IFRS/IPSAS, and use of domestic adaptations, to support consideration of whether New Zealand's current approach remains fit-for-purpose.

Country & GDP*	Classification model	Key frameworks	Sector specificity
New Zealand *US$ 260bn*	Dual sector	NZ IFRS, PBE Standards (IPSAS)	Classified by entity purpose – for-profits use NZ IFRS, while Public Benefit Entities (public sector entities and charities/NFPs) use PBE Standards based on IPSAS.
Australia *US$1.76T*	Transaction-neutral (modified)	AASB Standards (IFRS-based with sector specific modifications)	The same broad standards framework applies across for-profit, public sector and NFP entities, with sector-specific modifications.
Singapore *US$547bn*	Multi-sector	Singapore Financial Reporting Standards (International) (SFRS(I)), SFRS, SFRS for Small Entities, Statutory Board-Financial Reporting Standards (SB-FRS), Charities Accounting Standard (CAS)	Classified by entity type and legal structure – listed entities apply SFRS(I), many non-listed entities apply SFRS or SFRS for Small Entities. Statutory Boards apply SB-FRS, and registered charities may apply Charities Accounting Standards (CAS).
South Africa *US$401bn*	Multi-sector	IFRS; IFRS for SMEs; Standards of Generally Recognised Accounting Practice (GRAP)(developed primarily from IPSAS)	Classified by sector and entity type – listed and many publicly accountable entities apply IFRS, private entities apply either IFRS or IFRS for SMEs, while public sector entities apply GRAP. NFPs registered as companies typically apply IFRS or IFRS for SMEs.
Finland US$299bn	Multi-sector	Finnish Accounting Standards (FAS), Eu-adopted IFRS, Finnish Accounting Act (1336/1997) and Decree (including Decree 1753/2015)	Classified by listing status and entity type – listed entities generally apply Eu-adopted IFRS, many non-listed entities apply FAS, while public sector and NFP entities are dealt with separately under Finnish Accounting Act and Decree.
Estonia *US$43bn*	Multi-sector	Estonian GAAP, EU-adopted IFRS, IPSAS-based public sector accounting guidance	Classified by listing status and entity type – listed entities generally apply EU-adopted IFRS, while many non-listed and NFP entities apply Estonian GAAP. Public sector entities apply IPSAS-based public sector reporting and guidelines issued by the Ministry of Finance.

Observations and emerging themes

- Most jurisdictions adopt multi-sector approaches (no pure sector neutrality)
- IFRS is dominant for for-profit entities whereas public sector reporting use either IPSAS-based or locally adapted frameworks
- Clear focus by some of the listed jurisdictions on balancing international alignment with domestic relevance

* Selected jurisdictions reflect a range of economic sizes, legal systems, and geographic regions to provide a broad comparative perspective. GDP data has been sourced from the World Bank (GDP).

Appendix 5

Detailed analysis of sector options

Option 1: Two-sector model

Implications and impact:

Maintains the existing distinction between profit-oriented and public benefit entities, preserving continuity with current standards, practices, and stakeholder understanding.

This option results in a low transition cost and high level of system stability, reflecting the continued use of a well-established framework; however, it also perpetuates ongoing complexity at sector boundaries and within mixed groups, and leads to continued divergence in the treatment of similar transactions across sectors.

Strengths:

- Well understood and embedded
- Supports sector-specific reporting needs
- Avoids disruption to environment
- Broad alignment with NZ policy objectives through use of IFRS and IPSAS

Weaknesses:

- Ongoing boundary complexity, including classification challenges and mixed-group reporting issues
- Comparability and consistency concerns where misalignment occurs
- Fragmentation of workforce capability across sectors, reducing flexibility and consistency

Opportunities:

- Targeted refinements (e.g. improved classification guidance, reducing unnecessary divergence)
- Introducing a mechanism that better support movement between tiers
- Ability to respond incrementally to emerging issues without introducing significant system disruption.

Risks:

- Entrenchment of known issues
- Increasing pressure for sector-neutral approaches
- Increasing complexity of mixed groups and evolving entity types that may not be well accommodated in the two-sector model over time

Overall balance:

Maintains stability and sector relevance with low disruption, but entrenches existing complexity on boundary clarity and limits system-wide efficiencies.

RAG rating: 🟠

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

Option 2: Sector-neutral model

Implications and impact:

Removes the formal distinction between for-profit and public benefit entities, applying a single set of principles. This will represent a fundamental shift in the New Zealand framework.

This option is likely to involve a higher transition cost and greater short-term disruption, reflecting changes to standards, systems, and capability. It reduces complexity arising in sector classification and supports more consistent treatment of similar transactions.

Strengths:

- Simplifies the framework by removing sector boundaries
- Increased workforce mobility and talent pool flexibility
- It may improve comparability and consistency across sectors
- Supports international and local comparability and may strengthen investor confidence if aligned with IFRS

Limitations:

- May not fully reflect sector-specific reporting needs (e.g. non-exchange transactions and accountability measures)
- Risk of loss of relevance for public benefit reporting
- Complexity may shift from sector classification to judgement in applying principles across diverse entity types

Opportunities:

- Alignment of requirements for similar transactions, regardless of sector
- Ability to reduce duplication of work across sectors
- Supports development of system-wide capability and flexibility

Risks:

- Implementation risk given scale and complexity of change
- Risk that public sector accountability and service performance reporting becomes less well reflected
- Potential resistance from stakeholders

Overall balance:

Strengthens comparability, framework simplicity and system-wide capability, but risks reduced relevance for public benefit reporting and will introduce transition complexity.

RAG rating: ●

● Strong fit / low concern

● Mixed fit / medium trade-off concerns

● Significant trade-off concerns

Option 3: Three sectors

Implications and impact:

Introduces a third, distinct sector for for-purpose (NFP) entities, separating them from the broader public benefit category and recognising differences in objectives, funding models, and accountability between public sector and NFP entities.
This option may involve moderate transition cost and system change, reflecting the need to disaggregate the current PBE framework which may add complexity to sector classification challenges. However, it improves alignment of reporting with entity purpose and may enhance relevance for users of NFP financial reports.

Strengths:

- Better reflects differences in purpose and needs
- Improves relevance of reporting for for-purpose stakeholders
- Enables more targeted and proportionate standard-setting
- Retains familiar structure while refining sector distinctions

Limitations:

- Introduces an additional layer of classification and boundary complexity
- Increased duplication and maintenance burden in standard-setting across three sectors
- May reduce comparability and consistency across sectors

Opportunities:

- Ability to rationalise and tailor requirements to for-purpose entities
- Improved alignment between reporting and entity purpose
- Supports better user understanding and decision-making

Risks:

- Risk of increased sector boundary complexity
- Potential confusion for stakeholders during transition
- Ongoing inconsistencies across sectors
- Further segmentation of workforce capability, potentially reducing system-wide flexibility

Overall balance:
Enhances relevance and conceptual alignment by distinguishing sectors, but increases structural complexity and further fragments the system.

RAG rating: ● (amber)

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

Option 4: Segmentation approach

Implications and impact:

Introduces a more granular segmentation of entities based on their nature, function, or mandate (e.g. central and local government, Māori entities, schools/education, health, construction etc.), rather than broad sector groupings. This represents a significant shift towards a more disaggregated and tailored framework.
This option is likely to involve high transition cost and system complexity, reflecting the need to define and maintain multiple segments; however, it enables highly targeted reporting that better reflects the specific accountability, funding, and operating environments of different entity groups.

Strengths:

- Highly tailored reporting aligned to specific mandates and user needs
- Improved relevance and usefulness of information
- Better reflects diversity across entity groups, enabling targeted standard-setting

Limitations:

- High structural complexity, including multiple segment definitions and ongoing boundary challenges
- May reduced comparability across segments
- Potential duplication of standards and effort across segments
- Fragmentation of workforce capability and expertise across segments

Opportunities:

- Highly tailored reporting reflecting mandates and environments
- Improved user-focused information and accountability
- Ability to address segment-specific issues more directly
- Supports development of deep, segment-specific expertise

Risks:

- Reduced overall coherence of the financial reporting framework
- Potential confusion for users and preparers navigating multiple segments
- Increased resource and maintenance burden

Overall balance:

Maximises relevance through highly tailored reporting, but creates significant complexity, fragmentation, and challenges to the overall system coherence. This is not recommended

RAG rating: ●

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

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	6 August 2026
Subject:	**Analysis of mixed group issues – Accounting Standards Framework review**
Date:	23 July 2026
Prepared by:	Alex Stainer
Through:	Leana Van Heerden, Gali Slyuzberg, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this paper is to seek Board agreement that mixed groups should be included as a distinct topic in the ASF Discussion Paper, together with the proposed framing of the issue and the questions on which stakeholder feedback should be sought.

2. The paper explains how mixed groups arise under the current ASF, the challenges they may create, and their interaction with broader ASF design options. It also identifies areas where stakeholder feedback could assist in assessing the prevalence, significance, and implications of mixed-group issues.

Recommendations

3. The Board is recommended to:

   (a) provide FEEDBACK on the analysis of mixed-group issues and their interaction with broader ASF design choices;

   (b) AGREE that mixed groups should be included as a distinct topic in the ASF Discussion Paper;

   (c) AGREE with the proposed framing of mixed-group issues for consultation;

   (d) provide FEEDBACK on the proposed discussion paper wording and consultation questions and areas where stakeholder feedback should be sought.

Background

4. For detail on the background and context of the ASF review, please see the background to the ASF review memo at agenda item 6.1a. This memo contains the following contextual information:

   Memo contents

   (a) XRB mandate and purpose;

   (b) What is the ASF;

(c) Current ASF structure and how it works;

(d) Why the ASF is being reviewed now;

(e) Purpose and scope of the review;

(f) Background and financial reporting landscape;

(g) Balancing costs and benefits of change;

(h) Approach to the review;

(i) Options analysis;

(j) Overall project next steps; and

(k) Feedback sought from the Board.

Appendices

(l) Appendix 1: ASF sectors definitions and classification guidance

(m) Appendix 2: Legislative requirements to apply XRB accounting standards

(n) Appendix 3: Section 31 and 32 of the Financial Reporting Act 2013.

What are mixed groups?

5. The Accounting Standards Framework (ASF) aims to balance the costs and benefits of reporting by differentiating reporting requirements based on an entity's sector and tier classification.

6. Entities are first classified according to their sector and then assigned to a reporting tier based on size and/or public accountability. Those classifications then determine the reporting requirements that apply to the entity.

7. This is displayed in the table below.

Sector	Classification basis	Tiers and standards framework
For-profit	Entity is not a PBE	Tier 1 - NZ International Financial Reporting Standards (NZ IFRS) Tier 2 – NZ IFRS reduced disclosure regime
PBE sector	Meets the PBE definition Must then classify as a public sector PBE or a not-for-profit PBE	Tier 1 - PBE Standards based on International Public Sector Accounting Standards (IPSAS) Tier 2 – PBE Standards reduced disclosure regime Tier 3 and Tier 4 – domestic Tier 3 and Tier 4 standards (simplified requirements)

8. As sector and tier classifications are determined at the individual reporting-entity level, those entities that are controlled by a parent entity and are part of a wider reporting group may be subject to different reporting requirements than the parent/group.

9. This can result in complexity when a parent entity who is subject to NZ IFRS or PBE Standards, must prepare group/consolidated financial statements (as outlined in NZ IFRS 10 *Consolidated Financial Statements* and PBE IPSAS 35 *Consolidated Financial Statements*, as well as the Tier 3 Standard which refers to PBE IPSAS 35).

10. Consolidated financial statements present the entire reporting group as a single economic entity and must be prepared using a common reporting framework (i.e. either NZ IFRS or PBE Standards, depending on the sector classification of the parent/group). Accordingly, the

financial statements of the individual controlled entities must be brought together using a reporting framework that may be different to what they prepared their financial statements in line with.

11. This consolidation process and the financial statements produced can present several challenges for preparers, auditors, and users, and is the source of what this paper will refer to as mixed group issues.

12. In the table below, we detail the different types of mixed groups.

Types of mixed groups	Why is it a mixed group	Core problem
Mixed-sector groups	Parent and controlled entities are classified in different sectors	Different reporting objectives, frameworks, concepts and requirements
Mixed-tier groups	Entities in the same group qualify for different tiers	Different level of detail, disclosure and information capture
Cross-border mixed groups	Overseas subsidiaries apply overseas GAAP, IFRS variants or special purpose reporting	Conversion into NZ GAAP group reporting may be required
Other mixed groups	Entities have different statutory reporting obligations	Some entities within a reporting group may not be required to apply NZ GAAP and their accounting policies may differ to those required in XRB accounting standards.

Why do mixed groups arise?

13. Although mixed groups are largely a consequence of the ASF's multi-sector, multi-tier approach, they arise for a variety of reasons. Some arise directly from design features of the ASF, while others arise from the interaction of the ASF with statutory reporting requirements or reporting obligations outside New Zealand.

14. As noted in the background section, the entity level classification of the ASF is a primary driver of mixed groups. In the sections below we outline specific details of the other factors that may contribute to mixed groups, and provide examples of mixed group structures in New Zealand's reporting context.

Sector classification

15. Under the ASF, sector classification is determined primarily by the purpose and objectives of an individual reporting entity.

16. This means entities are classified based on their own characteristics and primary purpose, rather than automatically adopting the classification of the consolidated group that they form part of. For example, public sector entities that operate on a commercial basis may be classified as for-profit entities despite forming part of a wider public sector PBE reporting group. Or, a registered charity that conducts commercial activities in order to generate funds for the charitable activities of its ultimate owner may be classified as a for-profit entity.

17. Mixed-sector groups are therefore not merely a consequence of entity-level classification. They also reflect a deliberate design choice to prioritise classification based on the objectives and characteristics of individual entities, rather than group-level consistency. While this supports reporting requirements that reflect the circumstances of individual entities, it can result in entities with different sector classifications being brought together within the same reporting group, which requires effort on the parent entity's side when preparing the consolidated financial statements.

Tier classification

18. In addition to sector classification, entities are assigned reporting tiers based on size thresholds and public accountability, with different reporting requirements applying at each tier. For example:

    (a) Tier 1 entities apply full NZ IFRS (if they are for-profit entities) or full PBE Standards (if they are PBEs);

    (b) Tier 2 entities apply reduced disclosure regimes for either NZ IFRS (if they are for-profit entities) or PBE Standards (if they are PBEs); and

    (c) Tier 3 and 4 PBEs apply simplified locally developed XRB reporting requirements.

19. Entities within the same group may fall into different tiers, even if they are in the same sector. A Tier 1 PBE parent may, for example, control smaller PBEs that are eligible for Tier 2, Tier 3 or Tier 4 reporting.

20. In these circumstances, entities within the same group may be applying different reporting requirements despite being in the same sector. While the underlying accounting framework may be similar, the recognition, measurement, disclosure and information available from group entities may differ significantly, particularly where Tier 3 or Tier 4 PBE reporting requirements are applied.

Other reporting requirements

21. Mixed-group issues are also not driven solely by sector and tier differences within the ASF. They are also driven by statutory requirements that require the preparation of individual financial statements without regard to wider group reporting – noting that some legislative regimes such as the Companies Act 1993 provide some relief, while others do not. They may also arise because entities within the same reporting group are subject to different statutory or cross-border reporting obligations (i.e. may not be required to apply NZ GAAP, may instead produce special purpose reports or prepare financial statements in accordance with another jurisdiction's requirements).

22. This is important to recognise as some mixed-group issues may continue to arise even if sector or tier differences are reduced or removed as part of a redesign of the ASF. Although the interaction of the ASF with statutory and cross-border reporting requirements is relevant to mixed-group issues, is it largely outside the direct influence of the XRB. Accordingly, the focus of this paper is primarily on aspects of mixed-group complexity arising from the design and operation of the ASF.

Where do mixed groups arise?

23. Mixed groups are a natural consequence of the current ASF and are likely to arise wherever reporting groups contain entities with different sector classifications and reporting tiers. As a result, mixed groups are not unusual within the reporting environment.

24. The examples below demonstrate where mixed-group structures arise within the current reporting landscape. Note that this list is not intended to be exhaustive.

Sector of parent and group	Examples of mixed-group structure (not exhaustive)

Public sector PBE	• The NZ Government reporting group (PBE) contains for-profit public sector entities, such as:
	  ○ state-owned enterprises
	  ○ and statutory entities undertaking commercial activities
	• A council (PBE) may have some council-controlled organisations are for-profit entities.

Not-for-profit PBE	• A registered charity that is a PBE which controls a for-profit entity, e.g.:
	  ○ another registered charity with commercial activities; or
	  ○ a charity-owned trading company
	• A registered charity that is a PBE in Tier 1 of Tier 2, which controls other registered charities in Tier 3 or Tier 4
	• An Iwi organisation that has for-profit subsidiaries

For-profit	• A for-profit company may have a registered charity subsidiary that is a PBE • NZ companies with foreign subsidiaries (e.g. an iwi-owned trading company) • Groups containing different statutory reporting requirements, e.g. a 'large' company required to comply with GAAP and applying NZ IFRS may have non-large subsidiaries that apply special purpose reporting

25. Of particular note are public sector PBE groups that include for-profit public sector entities. There are approximately 200 for-profit public sector entities, across Tier 1 and Tier 2, who apply NZ IFRS but are then often consolidated into a PBE group, i.e. into consolidated financial statements prepared under PBE Standards. Many of these for-profit public sector entities are very economically significant, or are publicly accountable, in that they issue equity or debt instruments, or hold assets in a fiduciary capacity for a broad group of outsiders.

26. In terms of the other mixed group structures, there can be a broad range. We understand that mixed-purpose organisational structures are common in some parts of the reporting landscape, including public sector groups, charities with trading subsidiaries, and iwi-related structures. These groups may be a subset of the entire reporting system but in many cases may also be economically significant.

What challenges do mixed groups create?

27. Mixed groups do not necessarily create challenges simply because entities within a reporting group are subject to different reporting requirements. The practical implications arise when those differences need to be accommodated within financial reporting, assurance processes or the interpretation of reporting outcomes.

28. The nature and significance of these challenges will depend on the source of the differences within the group. In some cases, the effects may be limited and mitigated through materiality considerations. In other circumstances, differences in reporting frameworks, reporting requirements or reporting objectives may create additional complexity.

29. The principal challenges associated with mixed groups can be considered across three areas:
    (a) consolidation and financial reporting;
    (b) audit and assurance; and
    (c) user interpretation and reporting outcomes.

Consolidation challenges

30. Mixed-group challenges commonly arise when a reporting group prepares consolidated financial statements. While consolidation does not itself create mixed groups, it is the process through which differences between entities within a group must ultimately be reconciled into a single set of financial statements.

31. Where entities within a group apply different reporting requirements due to being in different sectors or tiers, information prepared at the individual entity level may need to be aligned or converted before it can be included in the consolidated financial statements. This may involve differences in:
    (a) recognition and measurement requirements;
    (b) accounting policies;
    (c) disclosures; and
    (d) information required for group reporting that is not otherwise produced by an entity within the group.

32. For example, when a subsidiary prepares under a different suite of standards or lower tier compared to the parent, the parent may need to:
    (a) identify accounting policy differences;
    (b) determine whether recognition and measurement adjustments are required;
    (c) obtain information not captured in the subsidiary's own reporting system;
    (d) prepare consolidation adjustments outside the subsidiary ledger;
    (e) document the basis for those adjustments;
    (f) assess materiality at both subsidiary and group level;
    (g) consider whether disclosures in the group financial statements need information that the subsidiary has not prepared; and
    (h) create and maintain controls so the process can be repeated in future periods.

33. The nature of these challenges varies depending on the source of the differences within the group. Where differences arise from sector classification, entities may be applying different reporting frameworks with different reporting objectives, requirements, accounting policies and guidance. This can create complexity because:
    (a) different frameworks may result in different recognition, measurement, presentation or disclosure outcomes; and
    (b) different frameworks may be designed to address different transactions and accountability requirements. For example, PBE Standards contain requirements relating to matters such as non-exchange transactions and service performance reporting that are not addressed in the same way within NZ IFRS.

34. See the Appendix 2 (Sources of mixed-sector complexity) for more detail.

35. Where differences arise from tier classification, the challenges are often less about differing reporting concepts and more about level of reporting detail. Lower-tier reporting requirements are designed to reduce reporting costs for smaller entities and may require less detailed consideration or less detailed information than higher-tier requirements. Consequently, a parent entity may require information for group reporting purposes that a lower-tier subsidiary would not otherwise consider or prepare.

36. However, in PBE groups, there are also situations where a controlled entity in Tier 3 or 4 would apply different accounting policies compared to a parent in a higher tier, requiring consolidation adjustments in the group financial statements. For example, a Tier 3 PBE may account for its investment in shares at cost, as permitted under the Tier 3 Standard – but if its parent is a Tier 1 or Tier 2 PBE, the parent would be required by PBE Standards to account for these shares at fair value when preparing consolidated financial statements. Also, Tier 4 PBEs apply cash accounting under the Tier 4 Standard, so a Tier 4 PBE may not include all assets and liabilities in its financial statements – but if its parent is in a higher tier, the parent would need information on all the assets and liabilities of the Tier 4 PBE for the purpose of preparing consolidated financial statements (subject to materiality considerations).

37. In some circumstances, this may create pressure for lower-tier entities to voluntarily apply higher-tier requirements, or prepare additional information, to facilitate group reporting. While this may reduce group reporting complexity, it may also result in entities preparing information beyond what would otherwise be considered proportionate for their own reporting purposes.

38. Materiality may reduce the significance of some conversion adjustments or the need for additional information. However, where differences are material, the effort required to align information across a reporting group may increase the complexity and cost of preparing consolidated financial statements.

Audit and assurance challenges

39. Mixed-group issues may also create challenges at the audit and assurance stage. Where information prepared by a subsidiary requires adjustment or conversion for group reporting purposes, assurance activities may need to consider both the subsidiary's reporting basis and the adjustments made in preparing the consolidated financial statements. This can increase audit effort through additional documentation, review procedures and evidence requirements, including:

    (a) assessing systems and controls around consolidations and group-level adjustments;

    (b) additional work over conversion journals and group-level adjustments;

    (c) obtaining evidence for adjustments that are not reflected in subsidiary statutory financial statements;

    (d) considering whether subsidiary systems capture the information required for group reporting;

    (e) reviewing management’s judgement in identifying and quantifying framework conversion adjustments;

    (f) evaluating consistency of accounting policies across the group; and

    (g) potential implications for audit fees and reporting timetables.

40. This issue will be exacerbated where lower-tier entities are being incorporated into a Tier 1 group framework, and do not have systems in place to capture the additional information required at the group level.

User and reporting outcome challenges

41. Mixed-group issues may also affect the interpretation and usefulness of financial reporting outcomes. Where entities within a reporting group apply different reporting frameworks or reporting requirements, similar activities or transactions may be reported differently before consolidation.

42. The resulting challenges are not limited to the preparation of consolidated financial statements. Different reporting frameworks are often designed to meet different reporting objectives and accountability requirements, and therefore can affect the information needs of certain users. For example:

    (a) Entity-level users may want information about the specific subsidiary and its purpose/accountability setting.

    (b) Group-level users may want comparable, consolidated information prepared on a consistent basis.

    (c) In mixed-sector groups, those needs may not fully align because individual entities and the group may be accountable to different stakeholders.

43. This may create challenges for the different users of a reporting group when interpreting:

    (a) why similar transactions are reported differently at an individual entity level in comparison to group level;

    (b) why different information is presented by different entities within the same group; and

    (c) what information the consolidated financial statements are intended to convey.

44. These challenges relate directly to broader ASF considerations, including:

    (a) the overall usefulness of information provided to users of financial reports;

    (b) comparability between entities;

    (c) consistency of reporting outcomes; and

    (d) misalignment between reporting requirements and user needs.

Why does this matter for ASF design?

45. Mixed-group issues are ultimately influenced by several aspects of ASF design, including:

    (a) the number and nature of sectors and tiers and the related boundaries;

    (b) how sector classifications are determined;

    (c) the reporting frameworks applied to each sector and tier; and

    (d) the extent to which reporting requirements can be aligned across a reporting group.

46. As a result, the significance of mixed-group issues under any future ASF model will depend not only on the number of sectors within the framework, but also on how those sectors are defined and the reporting requirements that apply to them.

47. Below we have considered the impact of mixed groups on several sector options that are being considered as part of the ASF review. These options illustrate how the design of the ASF may impact the prevalence and significance of mixed group issues.

Two-sector model

Sector	Classification basis	Example of standards framework that may be applied
For-profit	Entity is not a PBE	NZ International Financial Reporting Standards (NZ IFRS)
PBE sector	Meets the PBE definition Must then determine whether it is a public sector PBE or a not-for-profit PBE	PBE Standards based on International Public Sector Accounting Standards (IPSAS) (unless eligible for Tier 3 or Tier 4)

48. Features of the two-sector model that influence mixed group issues include:

    (a) Two sectors (for-profit and PBE) – reporting boundary between for-profit entities and PBEs.

    (b) Entity level classification – where sector and tier classifications are determined for individual reporting entities rather than based on the reporting group.

    (c) Purpose-based sector differentiation – where entities are classified based on their own objectives rather than the objectives of the parent or wider group.

    (d) Common framework for public sector PBEs and not-for-profit PBEs – that reduces potential mixed-group complexity .

    (e) Different reporting frameworks for for-profit entities and PBEs – that results in different reporting requirements, reporting objectives and outcomes, and can lead to complexity

    (f) Multi-tiers – meaning entities within the same group may still be subject to differing reporting requirements.

    (g) Close alignment of Tier 1 and 2 requirements within each sector (disclosure concessions for Tier 2 entities but recognition and measurement requirements align) – which may reduce mixed-tier complexity.

49. These features collectively influence both how mixed groups arise and the significance of any resulting challenges. Some features, such as entity-level classification and purpose-based classification, create the conditions for mixed groups to arise. Others, such as the reporting frameworks applied across sectors and tiers, influence the extent of the burden that may result.

Sector-neutral model

Sector	Classification basis	Example of standards framework that may be applied
All entities	N/A	A common reporting framework, such as NZ IFRS May still require sector-specific modifications where PBE reporting issues arise (unless eligible for Tier 3 or Tier 4)

50. Features of the sector-neutral model that influence mixed group issues include:

    (a) No sector differentiation or classification basis – reduces one of the principal conditions that give rise to mixed-sector groups.

(b) Common reporting framework – reduces the need to reconcile information prepared under different sector-specific reporting frameworks.

(c) Multi-tiers – meaning entities within the same group may still be subject to differing reporting requirements.

(d) Potential use of sector-specific adaptations or modifications within a common framework - which may continue to create differences in reporting outcomes where entities have different objectives, transactions or accountability requirements.

51. A sector-neutral model has the potential to reduce some mixed-sector issues because both the sector classification boundary resulting in the use of different reporting frameworks are removed.

52. However, it does not necessarily eliminate all mixed-group issues. Differences in reporting requirements or additional cost on consolidation may still arise through:

(a) Differing requirements of the tiers;

(b) Differing statutory or cross-border reporting obligations; and

(c) Applying adaptations within a common reporting framework to address public benefit reporting considerations.

53. A sector-neutral model would not necessarily fully remove the underlying reasons why mixed-group issues arise. Entities within the same reporting group may still have different purposes, accountability relationships, statutory obligations, reporting tiers and user needs. Statutory reporting requirements that exist outside the ASF may also continue to create differences between entities within a group.

54. In addition, consolidation may still require judgement regarding group accounting policies, entity-specific disclosures, the application of sector-specific adaptations within the common suite of standards, and whether those adaptations have been applied consistently across the group.

55. Transitioning to a sector-neutral framework may also introduce implementation costs and system impacts as entities, software, processes, guidance and assurance practices adjust to the new framework.

56. Accordingly, the model may reduce the visibility of sector boundaries, in the sense that financial statements of entities operating in different sectors and with different main purposes would look more similar, but it may not remove the practical need to align information across entities for consolidation, audit and user interpretation purposes.

Three sector model

Sector	Classification basis	Example of standards framework that may be applied
For-profit sector	Meets a for-profit definition For illustrative purposes this could be based on: • generating financial returns for equity holders, • being publicly listed or publicly accountable as per XRB A1	NZ IFRS

Public sector	Meets a public sector definition For illustrative purposes this could be based on: • Subject to Public Audit Act • Other public sector factors • Excluding publicly listed entities or publicly accountable entities as per XRB A1	PBE Standards based on IPSAS (unless eligible for Tier 3 or Tier 4)
Not-for-profit or for-purpose sector	Meets a not-for-profit or for-purpose definition For illustrative purposes this could be based on: • pursuit of social, community, cultural or public benefit objectives, • accountability to donors, funders, members or beneficiaries • Excluding publicly listed entities or publicly accountable entities as per XRB A1	A NFP focused reporting framework, e.g. International Non-Profit Accounting Standard (INPAS) or locally modified standards (unless eligible for Tier 3 or Tier 4)

57. Features of the three sector model that influence mixed group issues include:

    (a) Three sectors (for-profit, public sector, not-for-profit/for-purpose) – additional reporting boundaries may create additional opportunities for mixed-groups to arise.

    (b) Definitions of the sectors – that may relieve or exacerbate mixed-group issues depending on how they are defined (for example, if the 'public sector' category is defined to also include entities currently known as for-profit public sector entities, this could relieve mixed group issues in public sector groups – but splitting public sector and private not-for-profit PBEs into to distinct sectors with different reporting requirements could increase mixed group challenges).

    (c) Reporting frameworks used – different reporting frameworks for each of the three sectors may result in different reporting requirements, reporting objectives and reporting outcomes, influencing both how mixed-group issues arise and the extent of any resulting burden.

    (d) Multi-tiers – meaning entities within the same group that are in different reporting tiers may still be subject to differing reporting requirements.

    (e) Close alignment of Tier 1 and 2 requirements within each sector (disclosure concessions for Tier 2 entities but recognition and measurement requirements align) – which may reduce mixed-tier complexity.

58. The effect on mixed-group issues would depend heavily on the detailed design of the model, including the definition of sector boundaries, the basis on which entities are classified, and the reporting frameworks applied to each sector.

59. The impact of a three-sector model would also depend on how sector definitions impact existing mixed-group structures, such as public sector groups that include for-profit public sector entities. Changes to sector boundaries and reporting frameworks may themselves create

costs and unintended consequences if they result in the transition to new reporting requirements for these existing groups. Many of these entities have particular legislative obligations that could be disrupted, such as tax treatments based on NZ IFRS outcomes, balanced budget requirements in legislation, or other requirements or obligations that may be based on information from their financial statements. Accordingly, care would need to be taken to prevent unnecessary movement between reporting frameworks where existing reporting outcomes are appropriate and functioning effectively.

60. Finally, while this model creates an additional sector and reporting boundary, the extent to which it causes additional mixed group issues may also depend on the likelihood that reporting groups span all three sectors as opposed to two sectors.

Could the impact of mixed groups be minimised?

61. Mixed-group issues are one of the trade-offs that arise from the way the ASF is currently designed. Whether the consequences of mixed groups warrant a more targeted response depends on whether the burden is considered significant or costly enough to outweigh or seriously compromise the benefits provided by the ASF.

62. If mixed-group issues were considered sufficiently significant, a range of responses could potentially be considered outside of broader ASF structural design. However, the mechanisms available to achieve those outcomes vary considerably and are not always within the direct control of the XRB. Potential responses could include:

Degree of influence	Potential responses
Within XRB control	• improved guidance on sector classification and transitions between reporting frameworks to reduce unnecessary mixed groups (due to incorrect classification) or transitions between reporting frameworks; • allow, in specified circumstances, reporting approaches to be aligned across a reporting group (for example, allowing a not-for-profit PBE with several for-profit subsidiaries to apply certain for-profit requirements); • undertake domestic standard-setting, where appropriate, to improve the alignment of reporting requirements between sectors in a timely manner, while balancing international alignment; and/or • consider whether transition requirements for moving into another sector (i.e. first-time adoption standards) appropriately balance the costs and benefits of moving between reporting frameworks where mixed-group issues arise – especially if a new sector model is implemented and requires a change in framework.
Within XRB influence but not control	• influence international standard setting bodies (e.g. IPSASB) to improve the alignment of reporting requirements (e.g. with those of the IASB) in a timely manner, where differences between frameworks may create unnecessary complexity for reporting groups.

Outside direct XRB control	• influence statutory requirements, where possible, to consider the need for separate financial statements where group reporting is prepared in line with GAAP.

63. While mixed-group issues may reduce some of the benefits the ASF intends to achieve, these responses may also involve their own trade-offs that compromise the objectives of the ASF. For example:

    (a) reducing mixed-group complexity by allowing a consistent reporting approach for all reporting entities could also reduce some of the proportionality benefits that sector differentiation, tiers of reporting, and separate reporting obligations are intended to achieve.

    (b) undertaking domestic standard-setting seeking greater alignment between frameworks may sacrifice international alignment.

64. The appropriateness of any response would need to be considered in the context of the broader ASF objectives and would depend on understanding:

    (a) where mixed-group issues create the greatest burden;

    (b) whether those burdens are proportionate;

    (c) whether certain reporting groups are affected more than others; and

    (d) the extent to which any response would reduce burden without undermining the objectives of the ASF.

65. Accordingly, staff do not propose exploring detailed interventions through the ASF Discussion Paper. Rather, stakeholder feedback on the nature, prevalence and significance of mixed-group issues would help inform whether any response warrants further consideration. Stakeholders could also be asked to identify any practical steps or targeted responses that could help alleviate mixed-group challenges, including where those responses may sit within, or outside, the XRB's direct control.

Implications for the Discussion paper

Why consult on mixed groups?

66. Mixed-groups is a consequence of the design of the current ASF, and the resulting challenges have been raised through Board discussions and stakeholder engagement as a practical reporting challenge. Accordingly, we consider that mixed groups warrant separate treatment in the Discussion Paper, rather than being addressed indirectly through the higher-level sectors and tiers analysis.

67. In particular, mixed groups illustrate how the ASF's design choices affect the operation of the framework in practice. It therefore provides useful insight for stakeholders to consider when evaluating future ASF options and in determining if mixed group issues could be an acceptable trade-off for a particular design option.

How mixed groups should be framed?

68. While mixed groups are a consequence of the design of the current ASF, they largely arise because entities within the same reporting group may have different purposes, user needs and accountability requirements that may justify more proportional reporting.

69. Accordingly, mixed groups should be presented as a practical area where the benefits of sector, tier, and framework differentiation may come into tension with the costs of complexity (consolidation etc.) for a subset of the overall population.

70. The Discussion Paper could therefore use mixed groups to explore:

(a) the extent to which sector and tier differentiation creates practical reporting challenges;

(b) whether those challenges are an acceptable trade-off of a more tailored framework;

(c) whether mixed-group issues should influence views on future ASF design options; and

(d) whether any additional responses to minimise mixed group issues may be warranted.

71. This framing would allow stakeholders to consider mixed groups in the context of broader ASF design choices, while avoiding any implication that a particular solution is being proposed or preferred at this stage.

72. Excerpt of how this framing might look in the discussion paper is included in Appendix 1.

Suggested consultation questions

73. We consider there is value in the Discussion Paper including a broad consultation question supported by a range of considerations, rather than a series of narrowly framed questions.

74. This approach would encourage stakeholders to reflect on mixed-group issues in the wider context of ASF design and provide more holistic feedback on the significance of the issue and any potential responses.

75. We suggest this type of question may look like:

How significant are mixed-group issues in practice, and to what extent should these issues influence the design of the future ASF?

In responding, stakeholders may wish to consider:

- whether mixed-group issues create significant practical challenges in preparing, assuring, or using financial reports and whether any particular types of mixed-group arrangements create greater challenges than others;
- whether those challenges are an acceptable consequence of an ASF that seeks to provide tailored reporting objectives across sectors and proportionate reporting requirements across tiers;
- whether mixed-group issues should be a key consideration and influence views on design options for the future ASF; and
- whether targeted responses to address mixed group issues should be considered and, if so, what form those responses might take, and whether the benefits of any response would outweigh the associated trade-offs.

Questions for the Board

(1) Does the Board have any FEEDBACK on staff's analysis of mixed-group issues, and are there any additional aspects that should be considered?

(2) Does the Board AGREE that mixed groups should be included as a distinct topic in the ASF Discussion Paper?

(3) Does the Board have any FEEDBACK on the direction of the proposed framing of mixed-group issues for consultation in the ASF Discussion Paper?

(4) Does the Board have any FEEDBACK on the proposed consultation questions and areas where stakeholder feedback should be sought in the ASF Discussion Paper?

Appendix 1

Excerpt of Mixed Groups for the Discussion Paper

What are mixed groups?

When an entity controls other entities, it is generally required to prepare consolidated financial statements for itself and its controlled entities as a single reporting entity, i.e. the group. Mixed groups occur when entities within the same reporting group prepare financial statements using different reporting frameworks. This can arise from entities being classified into different sectors or tiers, or even being subject to different statutory requirements or cross border obligations.

Reporting groups that are mixed groups must bring together financial statements prepared under different requirements into a single set of consolidated financial statements under a consistent accounting standards framework (such as NZ IFRS or PBE Standards) and consistent accounting policies.

Why do mixed groups matter in the review of the ASF?

Mixed-group issues arise because reporting requirements based on the entity's sector and tier are determined at a reporting entity level, which means that an individual controlled entity/subsidiaries that has to prepare financial statements may not be classified in the same sector or tier as the parent and consolidated group, and therefore may have different reporting requirements.

Where entities within the same group are classified in different sectors and/or reporting tiers, and therefore apply different reporting frameworks, it can be complex and costly to prepare and audit consolidated financial statements, and may also result in these financial statements being less decision-useful.

Mixed groups and ASF design

Mixed-group issues are closely linked to the design of the ASF. Features such as sector distinctions, tiers and different reporting requirements help the ASF provide reporting requirements that are more proportionate to entities' differing objectives, accountability relationships and user needs. However, those same features can increase complexity where reporting groups contain entities subject to different requirements.

As a result, reducing mixed-group issues may involve trade-offs between simplicity and other objectives of the ASF, and the ability to tailor reporting requirements to different types of entities.

Two-sector model

The two-sector model (in the current ASF) has several features that influence mixed-group issues:

- entity-level classification;
- purpose-based sector classification;
- different reporting frameworks for for-profit entities and PBEs; and
- tier differentiation within each sector.

These features in one form or another may arise in alternative sector options. Below we reflect on the features of the other sector models outlined in this paper that may influence mixed-group issues.

Sector-neutral model

A sector-neutral model would remove sector-based differentiation and apply a common reporting framework across entities.

Features of a sector-neutral model that may influence mixed-group issues include:

- removal of sector classification boundaries;
- use of a single reporting framework;
- continued use of reporting tiers; and
- any modifications needed to reflect different reporting objectives or accountability requirements.

While a sector-neutral model removes one of the primary sources of mixed-group complexity, it does not remove the underlying differences that can exist between entities within a reporting group. Different accountability relationships, user needs, statutory obligations and reporting requirements may continue to require judgement, adjustments and reconciliation at a group reporting level. Accordingly, the model may reduce mixed-group issues, but is unlikely to eliminate them entirely.

Three-sector model

A three-sector model would differentiate between for-profit, public sector and not-for-profit (or for-purpose) entities.

Features of a three-sector model that may influence mixed-group issues include:

- additional sector boundaries;
- the basis on which entities are classified into sectors;
- the reporting frameworks applied to each sector;
- the extent of alignment between those frameworks; and
- tier differentiation within each sector.

The effect on mixed-group issues would depend heavily on the detailed design of the model, especially the sector definitions and the reporting framework for each sector. While a three-sector model introduces additional reporting boundaries, the extent to which this results in additional mixed-group burden may also depend on how frequently reporting groups span all three sectors rather than only two. Furthermore, if all public sector entities, including for-profit ones (excluding those that are publicly listed or publicly accountable per XRB A1), are classified in the same sector and are subject to the same suite of standards, this could reduce mixed group issues in the public sector. However, this may detract from the usefulness of individual public sector for-profit entities' financial statements.

Could the impact of mixed groups be reduced?

Changes to sector design in the ASF are not the only way to address mixed-group issues. Other responses may also be available, although they may involve their own trade-offs.

Type of response	Examples
Within XRB control	classification guidance, transition guidance, domestic standard-setting to enhance alignment in accounting requirements between sectors, possible group-alignment relief
Within XRB influence but not control	encouraging IPSASB/IASB alignment and that such alignment happens in a timely manner
Outside XRB direct control	statutory requirements for separate financial statements, overseas reporting obligations

Consultation Question

How significant are mixed-group issues in practice, and to what extent should these issues influence the design of the future ASF?

In responding, stakeholders may wish to consider:

- whether mixed-group issues create significant practical challenges in preparing, assuring, or using financial reports and whether any particular types of mixed-group arrangements create greater challenges than others;
- whether those challenges are an acceptable consequence of an ASF that seeks to provide more proportionate reporting requirements across the reporting system;
- whether mixed-group issues should be a key consideration and influence views on design options for the future ASF; and
- whether targeted responses to address mixed group issues should be considered and, if so, what form those responses might take, and whether the benefits of any response would outweigh the associated trade-offs.

Appendix 2

Sources of mixed-sector complexity

The complexity associated with mixed-sector groups arises because the reporting frameworks applied within the ASF are designed to support different reporting objectives, transactions, accountability relationships and user needs.

As a result, differences may arise in several ways, including:

- recognition and measurement requirements;
- accounting policy choices;
- presentation requirements;
- disclosure requirements; or
- reporting requirements relating to accountability and service performance;

Examples of areas where differences may arise include:

- non-exchange transactions such as taxes, grants and donations;
- public-benefit assets and impairment considerations;
- service performance reporting requirements; and
- other public-sector specific transactions (such as transfer expenses) and accountability requirements.

Furthermore, the absence of directly equivalent requirements in NZ IFRS relating to public benefit transactions or assets and liabilities often leads to uncertainty in how these transactions should be appropriately addressed under that framework.

Complexity may also arise because reporting frameworks do not always evolve at the same time. For example, changes introduced through NZ IFRS may not immediately flow through to PBE Standards (the current NZ IFRS treatment of leases is one example), as it can take time for the IPSASB to consider potential public sector modifications to IFRS requirements, and for the NZASB to consider New Zealand modifications to IPSASB requirements (e.g. for not-for-profit PBEs) if needed. Where reporting groups contain both for-profit and PBE entities, preparers may be required to adjust for differences arising from differing implementation timeframes before later revisiting those adjustments when equivalent requirements are incorporated into PBE Standards.

Similarly, differences in presentation requirements, impairment approaches, or accounting policy choices may require adjustments when information prepared under one framework is incorporated into group reporting prepared under another framework.

Area	Example of potential mixed-group issue
Non-exchange transactions	PBE Standards contain specific requirements on accounting for revenue from taxes, grants and donations that do not arise in the same way under NZ IFRS.
Service performance reporting	PBEs may be required to report service performance information under PBE FRS 48, whereas NZ IFRS does not contain an equivalent requirement.
Public-benefit assets	Concepts such as service potential and non-cash-generating assets may result in different impairment considerations for public-benefit assets

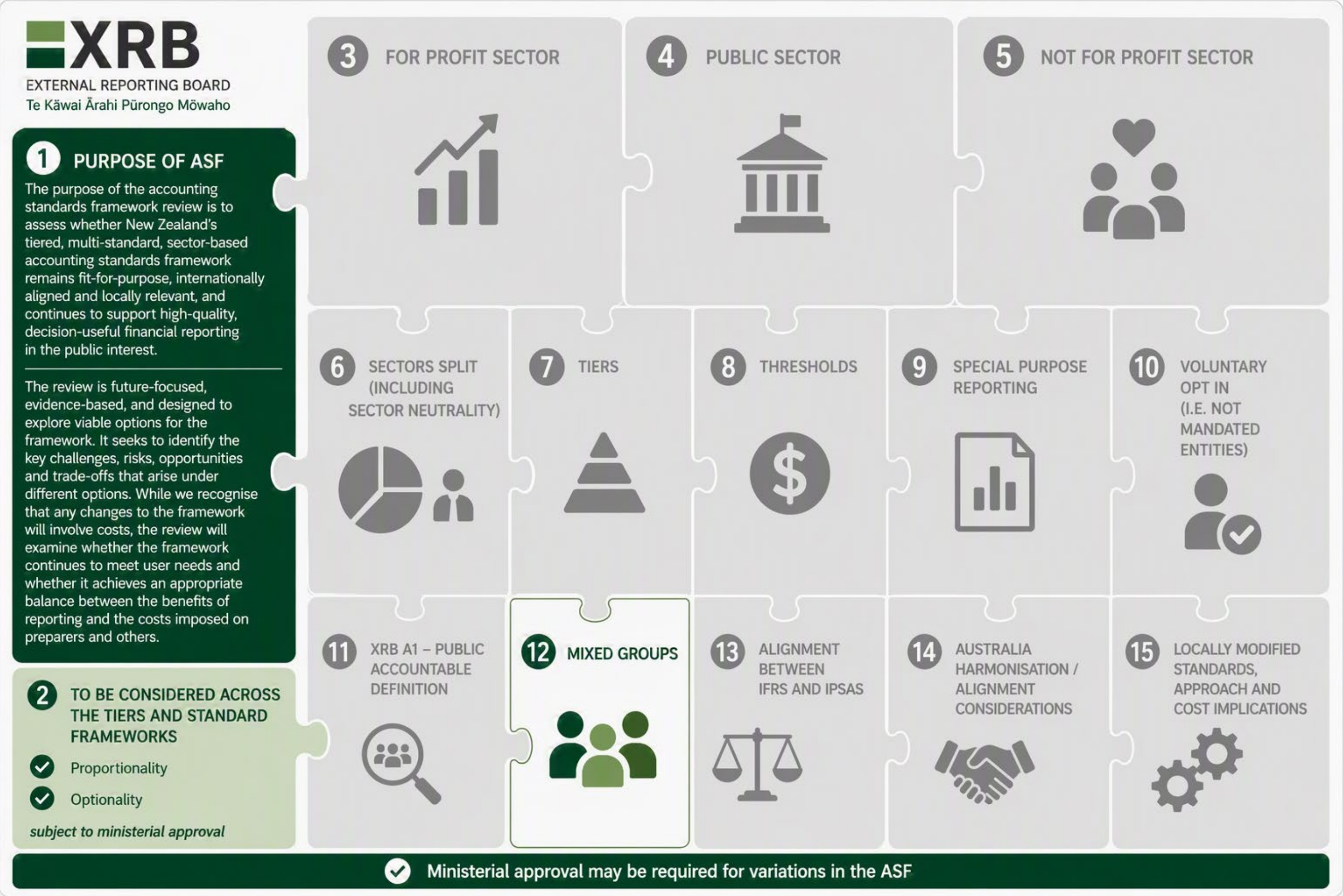
	accounted for under PBE Standards, compared to how assets held by for-profit entities are accounted for under NZ IFRS.
Leases	The right-of-use lessee accounting model in NZ IFRS 16 has not yet been incorporated into PBE Standards.
Accounting policy choices	Different frameworks may provide different policy options or practical expedients.
Presentation requirements	Changes such as NZ IFRS 18 may affect how financial performance is presented by for-profit entities compared with PBE reporting.
Standard-setting timing differences	Changes introduced into IFRS may not immediately flow through to IPSAS and PBE Standards, potentially creating temporary differences within mixed groups.

We have observed that these issues are particularly relevant in some public sector mixed-group arrangements, such as public sector entities that control commercial subsidiaries. However, the practical significance of those issues will depend on the circumstances of the reporting group.

Appendix 3

For additional information refer to the following mixed group slides.

Mixed groups



Challenges created by mixed groups

The practical issue is not that entities differ, but that those differences must be reconciled for reporting, assurance and users.

1

Consolidation and financial reporting

Information prepared under different sector or tier requirements may need to be aligned before it is included in group financial statements.

- recognition and measurement
- accounting policies and disclosures
- additional group information

2

Audit and assurance

Conversion adjustments and group-level processes may require additional evidence, documentation and review procedures.

- controls over consolidation
- conversion journals and adjustments
- management judgement

3

Users and reporting outcomes

Users may need to understand why similar transactions might be reported differently across entities and at group level, and how those differences affect interpretation of financial information.

- entity-level accountability
- group-level comparability
- usefulness of the overall report

Core message: mixed-group issues affect preparation, assurance and interpretation of consolidated financial statements.

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) – Definition of public accountability**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Inputs by:	Leana van Heerden
Through:	Nimash Bhikha; Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. This paper provides the New Zealand Accounting Standards Board (**NZASB**) with an overview of the definition of public accountability in XRB A1 *Application of the Accounting Standards Framework* (**XRB A1**) and explains how that definition operates across the for-profit sector and the public sector as part of the Accounting Standards Framework (**ASF**) review.

2. This paper supports the broader ASF review by explaining the concept of public accountability, which is referred to throughout the discussion paper and accompanying papers. It provides common background to assist readers in understanding where public accountability fits within XRB A1 and how it affects tier allocation, without reconsidering the broader tier structure, size, thresholds or legislative reporting requirements at this stage.

Recommendations

3. We recommend the Board:

   - **NOTE** the explanation of the definition of public accountability and its role in determining tier allocation under the ASF.
   - **AGREE** that the XRB should not explore changes to the definition of public accountability further as part of the ASF review, unless matters are identified through the broader review that indicate further consideration is necessary; and
   - **AGREE** with the proposed information for stakeholders to be included in the public discussion paper on this topic (outlined in blue text).

Background

4. The ASF was introduced in 2012 following changes to New Zealand's financial reporting system. It established a multi-sector and multi-tiered approach to financial reporting requirements in New Zealand, replacing the previous sector-neutral approach, under which New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) applied across both for-profit entities and public benefit entities (**PBEs**). The current approach establishes separate suites of reporting standards for both the for-profit entities and PBEs.

5. With this approach, generally more comprehensive reporting requirements apply to entities with public accountability or significant size, while reduced reporting requirements may apply to entities with lower levels of public accountability or external reliance.

6. Figure 1 illustrates where public accountability fits within the XRB A1 flow. Public accountability is a key factor after an entity's reporting sector has been determined as this identifies whether the entity must apply the most comprehensive reporting requirements or not.

Figure 1: Where public accountability fits in the ASF tiering model

The XRB A1 flow determines the applicable accounting standards through sequential decision points. Public accountability is considered at the tier allocation stage as one criterion for determining whether an entity applies Tier 1 reporting requirements.

1 Reporting Obligation	**Is the entity required under legislation, or does it opt in to prepare general purpose financial reports in accordance with XRB standards?**	If yes, XRB A1 determines the applicable accounting standards.
2 Sector Classification	**Is the entity a for-profit entity or public benefit entity (PBE)?**	Determines whether the for-profit or PBE tier structure applies.
3 Sector Tier Structure	**Which tier structure applies in that sector?**	For-profit entities → Tier 1 or Tier 2. PBEs → Tier 1, 2, 3, or 4
Public Accountability	**Does the entity have public accountability under XRB A1?** ★ Key decision	If yes → public accountability is a Tier 1 criterion. If no → other tier criteria apply (size, sector-specific requirements).
4 Applicable Standards	**Which accounting standards apply?**	The entity applies the accounting standards specified for its sector and tier.

Note: This figure focuses on where public accountability fits within the XRB A1 flow. Other ASF papers explain the broader sector and tiering framework in more detail.

7. Public accountability for accounting purposes is distinct from legislative status as a reporting entity. As seen above, legislation determines which entities must prepare GAAP-compliant financial statements and XRB A1 then determines which suite of standards and which tier applies to those entities. The fact that an entity is required to report GAAP-compliant financial statements does not, by itself, determine whether it has public accountability or whether it applies Tier 1 requirements.

8. This distinction is important for the ASF review because it separates the question of who is required to report from the question of what level of reporting requirements should apply once an entity is within the statutory reporting framework.

Definition of public accountability in XRB A1

9. XRB A1 uses the International Accounting Standards Board (**IASB**) definition of public accountability. This reflects the NZASB's rationale (as outlined in paragraph BC13 of XRB A1) that the IASB definition of public accountability as a Tier 1 criterion was appropriate to:

   - Link to the information needs of existing or potential investors;
   - Align with what the IASB sees as the group of entities that operate in the capital market and for which IFRS has been developed; and
   - Align with Australia which also uses the IASB's definition, plus a deeming approach, as the Tier 1 criteria.

10. In establishing the ASF, the NZASB placed significant weight on trans-Tasman harmonisation, reflecting both Government policy and the number of entities with reporting obligations in New Zealand and Australia. The framework therefore adopts public accountability as the primary criterion for Tier 1, supplemented by a deeming approach relevant to the New Zealand context. This aligns closely with the Australian model and supports consistency in reporting requirements across the two jurisdictions, while also maintaining alignment with the international concept of public accountability.

11. Broadly, an entity has public accountability if its debt or equity instruments are traded in a public market, or if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. The exact definition, including the New Zealand deeming provisions for certain Financial Markets Conduct (**FMC**) reporting entities, is included in Appendix 1.

12. In New Zealand, the Financial Markets Conduct Act 2013 (**FMCA**) identifies certain FMC reporting entities, or classes of FMC reporting entities, as having a Higher Level of Public Accountability (**HLPA**). This designation applies to entities identified under section 461K of the FMCA or by notice issued by the Financial Markets Authority (**FMA**) under section 461L(1)(a). XRB A1 deems these entities to have public accountability for accounting purposes. Appendix 2A illustrates how these two concepts are connected.

13. The XRB A1 deeming provisions link the accounting concept of public accountability with the HLPA designation under the FMCA. However, being an FMC reporting entity does not, by itself, mean that an entity has public accountability for accounting purposes. Only FMC reporting entities that have HLPA under the FMCA, or are covered by an FMA notice, are deemed to have public accountability. Appendix 2B identifies the entities that are currently considered to have HLPA.

14. Public accountability in XRB A1 is based on two components. The first is the IASB definition of public accountability, which provides the international basis for the concept and supports alignment with IFRS-based reporting frameworks. The XRB could depart from that international definition, but doing so would need to be considered carefully because would affect international consistency and comparability. The second is the New Zealand-specific deeming provisions, which link public accountability to the HLPA designation under the FMCA, which is determined by the FMA.

15. The XRB can decide how these deeming provisions are incorporated into XRB A1 for accounting purposes, but the underlying HLPA categories are set through legislation or FMA notices rather than by the XRB.

Application in the for-profit sector

16. In the for-profit sector, public accountability is one of the key criteria used to allocate entities to Tier 1. Under the current ASF, Tier 1 for-profit entities include entities that have public accountability and large for-profit public sector entities. Tier 2 applies to for-profit entities that do not have public accountability and, for for-profit public sector entities, those that are not large (total expenses exceeding $33 million).

17. The public accountability concept is intended to identify entities for which there is a high level of external reliance on general purpose financial statements. This includes entities that access public capital markets and entities that hold or manage assets for a broad group of outsiders as a primary business.

18. The practical effect is that entities such as listed issuers, registered banks, licensed insurers, credit unions, building societies and certain managed investment schemes will generally be allocated to Tier 1 where they meet the relevant criteria.

19. The Tier 1 for-profit paper discusses the characteristics of these entities and their reporting framework in more detail. This paper explains the definition that underpins that tier allocation.

Application in the public benefit entity sector

20. In the PBE sector, public accountability is also relevant to tier allocation. A PBE is allocated to Tier 1 if it has public accountability or is large with total expenses exceeding $33 million. This means that public accountability can apply to public sector entities and not-for-profit entities, although many Tier 1 PBEs are in Tier 1 because they meet the size threshold rather than because they meet the public accountability definition.

21. In practice, only a very small number of public sector PBEs are understood to have public accountability by meeting the definition in XRB A1. These entities generally have public accountability because they have debt instruments traded in a public market (by Central Government or Local Councils). For not-for-profit PBEs, it is generally rare for them to meet the public accountability definition in XRB A1 (as they do not issue traded instruments). Most other Tier 1 PBEs (in both the public sector and not-for-profit sectors) are Tier 1 because they exceed the expenditure size threshold, which will be explored separately within the tiers and thresholds element of the ASF Review.

22. The public sector context also involves broader accountability to Parliament, taxpayers, ratepayers, service users and other stakeholders. That broader public sector accountability is important to financial reporting, but it is not the same as the technical definition of public accountability in XRB A1.

23. This distinction is important as the term “public accountability” may be understood more broadly by stakeholders in a public sector context. For ASF purposes, however, public accountability is a defined accounting concept used for tier allocation. Other forms of public accountability, including accountability for the use of public resources and service delivery, are addressed through the design of PBE Standards and service performance reporting requirements rather than through the public accountability definition alone.

Why the definition matters for the ASF review

24. The definition of public accountability matters because it is one of the criteria used to determine when full reporting requirements apply. It is therefore central to the proportionality of the ASF and is within the XRB's control to amend for the New Zealand context.

25. The ASF establishes the reporting framework for those entities that have a statutory obligation, or that opt under an enactment, to prepare financial statements or financial reports that comply with generally accepted accounting practice (**GAAP**) or non-GAAP standards that are issued by the XRB, hereafter referred to as general purpose financial reports (**GPFR**).

26. Primary users of GPFR rely on those reports for different purposes depending on the entity type. Individual primary users have different, and possibly conflicting, information needs and desires. The NZASB, in developing Accounting Standards, seek to provide the information set that will meet the needs of the maximum number of primary users. Entities with public accountability will generally have a greater number of primary users who have a wider range of needs, which drives the need for more comprehensive reporting requirements.

27. The definition also supports consistency across sectors by providing a common technical concept for identifying entities with public accountability. However, its application operates alongside other sector-specific tier criteria, including the large entity thresholds for for-profit public sector entities and PBEs.

28. For the purposes of the ASF review, public accountability is one factor within the broader tiering model. It should be read together with the sector definitions, size thresholds, legislative reporting requirements and the objectives of each standards suite.

29. Entities that are not publicly accountable, and are not large for-profit public sector entities, can still choose to apply the full Tier 1 requirements voluntarily if they consider that full IFRS reporting better meets their users' needs.

Why staff do not propose exploring changes to the definition at this stage

30. XRB staff do not propose exploring changes to the definition of public accountability as part of the ASF review. The current definition has an international component, based on the IASB definition with in their IFRS for SMEs Standard, and a New Zealand-specific component, based on deeming provisions linked to the FMCA HLPA designation.

31. In New Zealand, legislation requires the Tier structure to take into account an FMC reporting entity's level of public accountability, which is done through the current definition (as noted in paragraph BC15 of XRB A1).

32. Because these components are either internationally anchored or linked to legislative or FMA determinations, we consider that any change would need strong evidence that the current definition is not operating appropriately (which we have not identified). The definition has also recently been through the Amending Standard *2025 Amendments to XRB A1 Application of the Accounting Standards Framework* (mandatory from 1 January 2027) to make the application of public accountability easier in New Zealand.

33. The current public accountability definition within the ASF:

    - Aligns with international definitions developed by the IASB and ensures global comparability and consistency of entities which are significant to the global economy and have responsibilities to the wider public through their activities and services, and

- Is locally relevant as it recognises the legal designations which exist in New Zealand and how these can alter the degree of accountability for certain entities. This current definition fits within New Zealand's diverse legislative reporting framework.
- Meets legislative requirements using mechanisms within the XRB's mandate, as New Zealand legislation requires the Tier structure within the ASF to take into account an FMC reporting entity's level of public accountability.

34. The public accountability definition continues to serve its intended role as one criterion for identifying entities for which Tier 1 reporting requirements are appropriate. The XRB has already responded to feedback received on how this definition works in practice as part of the 2025 amendments and we consider the definition to be fit for purpose for the New Zealand reporting environment going forward.

Question for the Board

Q1. Does the Board **AGREE** that there is no current need to explore changes to the definition of public accountability as part of the ASF review, unless matters are identified through the broader review or consultation feedback that indicate further consideration is necessary?

Extract of public discussion paper

35. We propose including the following wording within the public discussion paper to explain why the definition of public accountability is not being explored during the ASF review and why there are no specific questions requesting feedback on public accountability.

The XRB is not exploring changes to the definition of public accountability as part of the ASF review but is focussed on broader framework issues and ensuring these remain fit-for-purpose and internationally aligned and locally relevant.

We consider the current public accountability definition within the ASF:
- Aligns with international definitions developed by the IASB and ensures global comparability and consistency of entities which are significant to the global economy and have responsibilities to the wider public through their activities and services, and
- Is locally relevant as it recognises the legal designations which exist in New Zealand and how these can alter the degree of accountability for certain entities. This current definition fits within New Zealand's diverse legislative reporting framework.
- Meets legislative requirements using mechanisms within the XRB's mandate, as New Zealand legislation requires the Tier structure within the ASF to take into account an FMC reporting entity's level of public accountability.

We note the definition was recently reviewed and updated through the Amending Standard *2025 Amendments to XRB A1 Application of the Accounting Standards Framework*, which became mandatory on 1 January 2027. Those amendments were specifically developed to address several practical application challenges identified by stakeholders.

Question for the Board

Q2. Does the Board have any **FEEDBACK** on the proposed wording to be included into the public discussion paper around why the definition of public accountability is not being explored during the ASF review?

Appendix contents

The appendices provide supporting material for the explanation of public accountability in the main paper. The table below summarises the purpose of each appendix.

Appendix	Title	What it contains
Appendix 1	Definition of public accountability in XRB A1	Includes the relevant extract from XRB A1 setting out the definition of public accountability and the New Zealand deeming provisions.
Appendix 2A	FMC reporting entities and the connection to the public accountability concept	Explains how the FMCA higher level of public accountability designation connects to public accountability for accounting purposes under XRB A1.
Appendix 2B	FMC reporting entities currently with HLPA	Identifies the FMC reporting entities or classes of FMC reporting entities that are currently considered to have a higher level of public accountability.
Appendix 3	Overview slides	For an overview of the information within this paper, please refer to the accompanying public accountability definition slides.

Appendix 1: Definition of public accountability in XRB A1

The following extract is included for ease of reference when reading paragraph 9 of this paper.

Extract from XRB A1 Application of the Accounting Standards Framework (from 1 January 2027)

Public accountability

7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:

(a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or

(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.

8 The IASB defines an entity as having has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example, banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

8A In New Zealand, the application of the paragraph 8(b) is subject to the following additional considerations.

(a) An FMC reporting entity is considered to have public accountability in accordance with paragraph 8(b) if, and only if, the FMC reporting entity is deemed to have public accountability in accordance with paragraph 9.

(b) Paragraph 8(b) provides that "banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks" often have public accountability. In New Zealand, this statement may not necessarily apply to every type of entity listed in the IASB definition. For example, in New Zealand, many entities known as 'brokers' or 'dealers' do not hold client assets in a fiduciary capacity, but instead mainly provide investment portfolio advice and/or transactional services. Judgement is required in determining whether a non-FMC reporting entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, when applying paragraph 8(b). Additional guidance is provided in paragraphs 11 and 12.

9 An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013[1]; or

(b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

10 [Deleted]

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[1] *The terms "FMC reporting entity" and an FMC reporting entity with a "higher level of public accountability" are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a higher level of public accountability for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.*

11 Some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example:

(a) this may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies;

(b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and

(c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a "fiduciary capacity for a broad group of outsiders" it is not holding them "as one of its primary businesses". This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.

12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.

13 Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability.

Appendix 2A: FMC reporting entities and the connection to the public accountability concept

Financial Markets Conduct Act 2013 (FMCA)

The FMCA identifies certain FMC reporting entities, or classes of FMC reporting entities, as having Higher Levels of Public Accountability (HLPA).

↓

HLPA designation

Entities are designated as having HLPA under section 461K of the FMCA or by notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a).

↓

XRB A1 deeming provisions

XRB A1 paragraph 9 deems those FMC reporting entities with HLPA to have public accountability for accounting purposes.

Not all FMC reporting entities have HLPA. Only those designated as having HLPA (or are covered by an FMA notice) are deemed to have public accountability for accounting purposes.

↓

Use in the Accounting Standards Framework (ASF)

Public accountability is one of the criteria used in the ASF to determine tier allocation and the applicable financial reporting requirements, alongside other factors such as entity size and sector.

Note

This illustration above shows how the HLPA designation under the FMCA is linked to the accounting concept of public accountability through the deeming provisions in XRB A1.

Appendix 2B: FMC reporting entities currently with HLPA

Entity Type	FMC Reporting Entity	FMC Reporting Entity with HLPA[2]	Note
Issuer of regulated offer – equity securities only, <50 shareholders	✗	✗	*FMCA s452 carve-out*
Issuer of regulated offer – equity securities, ≥50 shareholders	✓	✓	
Issuer of regulated offer – debt securities	✓	✓	
Listed Issuer	✓	✓	
Manager of registered schemes — Manager level financial statements	✓	✗	*Not HLPA unless triggered otherwise[3]*
Registered schemes (incl. KiwiSaver schemes) — Scheme level financial statements	✓	✓	*HLPA applies at scheme level only – s461K(1)(b)*
Licensed Supervisor	✓	✗	
Operators of licensed markets	✓	✗	
Conduit issuer / recipient of money from conduit issuer	✓	✗	
Registered bank	✓	✓	
Licensed insurer	✓	✓	
Credit Union	✓	✓	
Building Society	✓	✓	
FMC reporting entity designated by notice from FMA	✓	**Depends**	

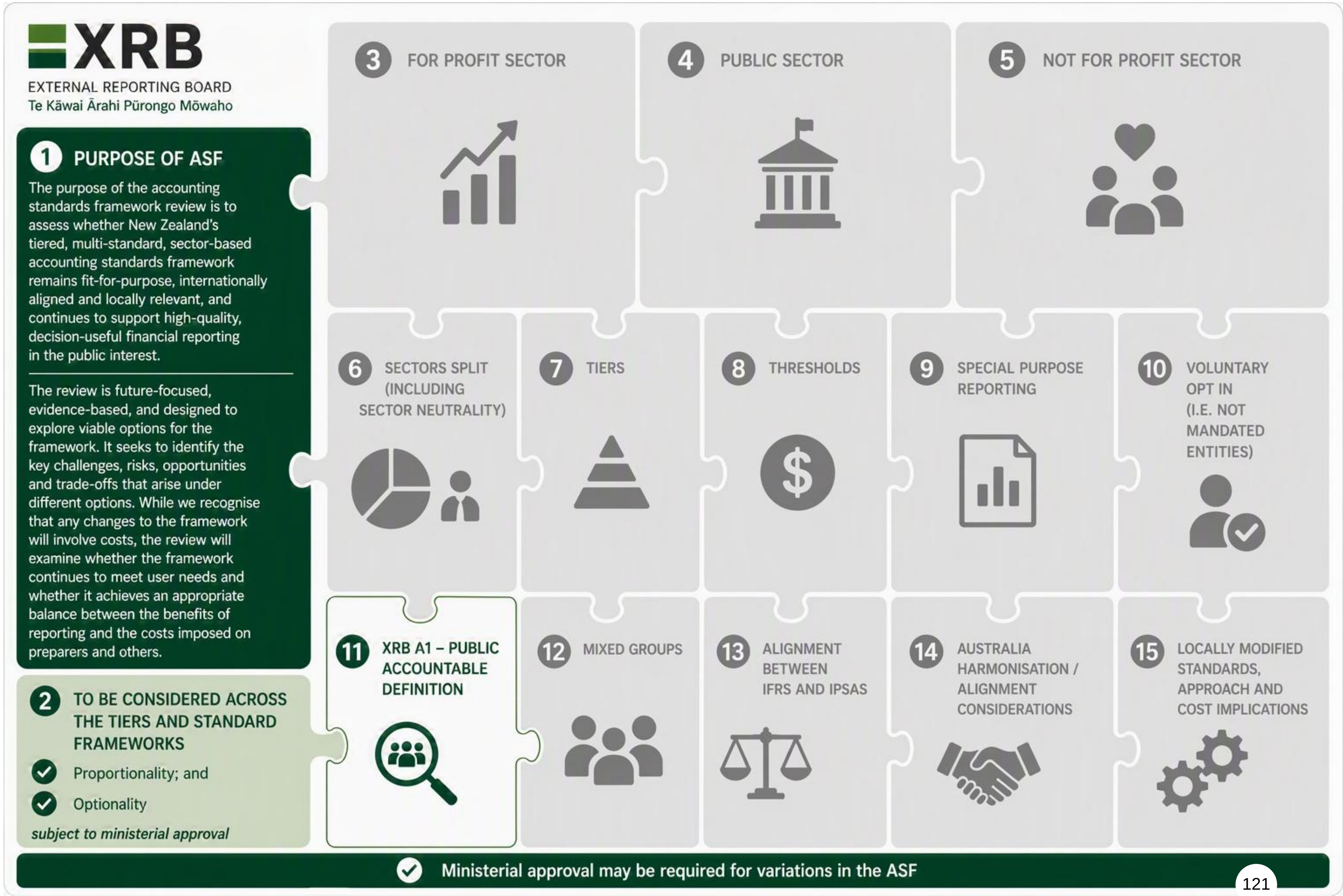
[2] Not all FMC reporting entities carry Higher Level Public Accountability obligations — the distinction depends on entity type and statutory triggers under the Financial Markets Conduct Act.
[3] For a manager of a registered scheme, higher public accountability applies only to the scheme or fund financial statements. The manager entity itself does not have HLPA unless it independently meets another statutory HLPA trigger, such as being a listed issuer or an issuer of regulated products in its own right.

Appendix 3: Overview Slides

Note:
Refer to the overview slides for this paper on the next page.

Public accountability

Public Accountability



Public accountability and large for-profit public sector entity requirements

Tier 1 for-profit entities		
Has public accountability	**Or**	**A large for-profit public sector entity with total expenses > $30mil**
XRB A1.9 - An entity is deemed to have public accountability in New Zealand if: a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a "higher level of public accountability" by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.		XRB A1.6 Definitions – Public benefit entities (PBEs) are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. For-profit entities are reporting entities that are not public benefit entities. For-profit public sector entities are for-profit entities that are public entities as defined in the Public Audit Act 2001 (Section 5) which includes seven types of entities including the Crown, offices or parliament and parliamentary agencies, etc.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	**ASF review – special purpose financial reporting**
Date:	24 July 2026
Prepared by:	Gali Slyuzberg
Through:	Leana van Heerden, Nimash Bhikha, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. As part of our project to review the New Zealand Accounting Standards Framework (ASF), we have considered the viability of exploring an option whereby the XRB would develop special purpose financial reporting (SPFR) requirements for for-profit entities and public benefit entities (PBEs).

2. The purpose of this memo is to document our considerations on whether XRB-developed SPFR requirements is a viable option to explore as part of the ASF review, and to seek the NZASB's views on how to communicate our recommended conclusion in the future Discussion Paper.

Recommendations

3. We recommend that the Board provides **FEEDBACK** on:
   (a) The considerations in this memo on the viability of XRB-developed SPFR requirements, and the recommendation that this is not a viable option to explore as part of the ASF review; and
   (b) Our suggestion on how to explain these considerations and recommended conclusions in the future Discussion Paper on the ASF review.

Structure of this memo

4. The remainder of this memo is organised as follows.

General purpose vs special purpose financial reports

5. Currently, the XRB issues accounting standards for the purpose of preparing **'general purpose financial reports' (GPFR)**. XRB A1 *Application of the Accounting Standards Framework* defines GPFR as "financial reports that are intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs".

6. The objective of GPFR is as explained in the XRB's internationally-aligned Conceptual Frameworks for for-profit entities and PBEs that are required to prepare GPFR.

Table 1: Objective of GPFR per the internationally-aligned conceptual frameworks

For profit entities: NZ equivalent to the IASB Conceptual Framework for Financial Reporting	Public Benefit Entities' Conceptual Framework
1.2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources.	2.1 The objectives of financial reporting by public benefit entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes"). 2.4 [...] GPFRs of public benefit entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public benefit entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and elected or appointed representatives are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the PBE Conceptual Framework, the primary users of GPFRs are service recipients and their representatives and resource providers and their representatives [...].

7. The XRB's Explanatory Guide A1 *Guide to Application of the Accounting Standards Framework* (EG A1) explains the difference between **GPFR** and **special purpose financial reports (SPFR)**. The relevant paragraphs in EG A1 are shown in the table below.

Table 2: GPFR vs SPFR explanation in EG A1

GPFR	SPFR
Para 22: The objective of GPFR is to provide information to users for decision-making or accountability purposes where those users are generally unable to obtain the information they require. By definition therefore GPFR seeks to provide information to a range of general purpose users with different interests in that information. GAAP and non-GAAP standards issued by the XRB reflect this.[12] *Footnote:* 12 The objective of GPFR, the users of GPFR and the information needs of such users are discussed in detail in the [Conceptual Frameworks – see above].	Para 23: By contrast where users have the power to specify the information to be included in financial reports, these financial reports are considered to be special purpose financial reports (SPFR). Users that can usually request SPFR include major suppliers of funds such as banks and financial institutions, government regulatory agencies such as Inland Revenue or Statistics New Zealand, and credit rating agencies. The standards issued by the XRB are not intended to apply to SPFR.

8. SPFR are reports that aim to address the information needs of specific users, who have the ability to request specific information from the entity – e.g. reports requested by and prepared specifically for the Inland Revenue, the entity's bank, or a specific shareholder/owner. By contrast, GPFR are intended to satisfy the information needs of a broader range of external users as indicated in the respective for-profit and PBE conceptual frameworks – i.e. current and potential investors, lenders and creditors in the for-profit sector, and service providers, resource recipients and their representatives in the PBE sector.

Why are we considering SPFR as part of scoping the ASF review?

9. As shown in Figure 1 in the next section of the memo, entities that are not required by primary legislation to report in accordance with standards issued by the XRB may choose, or may be required by specific users, to prepare SPFR. For example:
   (a) A company may have no statutory requirement to report in accordance with standards issued by the XRB, i.e. it is not 'large' under the Companies Act 1993, not an FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013, etc. However, that company may choose to prepare SPFR for its five shareholders, to support their governance efforts. In preparing the SPFR, the company's management would develop accounting policies and agree on them with these specific shareholders. Some of these policies might be aligned with requirements in NZ IFRS, and some might not be – depending on what is considered most useful for the five shareholders for whom the SPFR are prepared, and considering preparation costs for management in this context. The company would not assert compliance with XRB standards in their SPFR.
   (b) Inland Revenue requires companies that are not required to prepare financial statements in accordance with XRB standards to prepare SPFR for tax purposes – per the minimum requirements in the Tax Administration Act 1994.

10. We understand that SPFR is beneficial for those entities that prepare such reports and for their users, because such reporting allows entities to tailor their recognition, measurement, presentation and disclosure policies to specific users – and to avoid the financial reporting costs associated with some of the more complex or disclosure-heavy requirements in NZ IFRS or PBE Standards, which are aimed at satisfying the needs of broader user groups.

11. For example, in the case of the hypothetical company mentioned above: Management might depreciate property, plant and equipment (PP&E), other than land, as aligned with NZ IAS 16 *Property, Plant and Equipment,* because the resulting information is important to the specific shareholders – but might not recognise deferred tax as required by NZ IAS 12 *Income Taxes* and might not use the right-of-use (ROU) model for leases as required by NZ IFRS 16 *Leases*, if the information provided by deferred tax accounting and ROU lessee model is not of great interest to those specific shareholders. This way, the company avoids the cost of applying deferred tax accounting and the ROU lessee accounting model, but the shareholders still get the benefits from the company applying established PP&E accounting which is consistent with other entities.

12. We acknowledge the benefits of SPFR for entities that are currently permitted to report in this way. We note that our current ASF considerations will not take away this permission, as the XRB does not have the mandate to expand the scope of entities who are required to prepare financial statements in accordance with our standards.[1] Entities that are currently permitted to prepare SPFR and not required by legislation to apply XRB standards are outside the scope of the ASF.

[1] The XRB does not have a mandate to determine 'who' (i.e. which entities) must prepare financial statements in accordance with standards issued by the XRB. Rather, this is determined in primary legislation. See the next section for more information.

13. However, this memo outlines our considerations as to whether the XRB should consider developing SPFR requirements for those entities that are in the scope of the ASF – considering the benefits of SPFR mentioned above, but also taking into account the difference between those entities that are currently permitted to prepare SPFR only and their users' needs, versus those entities that are currently required to prepare GPFR in accordance with XRB standards and their users' needs.

Statutory context and policy intent of GPFR requirements

Overview of the financial reporting framework

14. A high-level overview of the overall New Zealand financial reporting framework, and how GPFR and SPFR currently fit into this context, is shown below.

Figure 1: Overview of the financial reporting framework

General purpose financial reports (GPFR)

Statutory financial reporting framework ['who' must report]

- The **Government**, through **primary legislation**, requires certain entities to prepare GPFR in accordance with **standards issued by the XRB**. Specifically, certain Acts require entities to report in accordance with **'generally accepted accounting practice' (GAAP)**, or in accordance with **GAAP or a 'non-GAAP standard'**.
- Entities subject to such statutory reporting required include FMC reporting entities, 'large' companies, govt departments, councils, registered charities, incorporated societies that are not 'small', etc.

Accounting Standards Framework ['what' requirements apply]

- The **XRB** develops and issues **accounting standards** to be applied by the entities mentioned above.
- The development of standards is underpinned by the **ASF** (which currently takes a **multi-sector, multi-standards tiered approach** to standard setting).

Special purpose financial reporting (SPFR)

Entities which have no statutory requirements to prepare GPFR may still need to prepare financial statements for tax, governance, financing, or other purposes.

The role of the XRB per primary legislation

15. Per section 12 of the Financial Reporting Act 2013 (FRA), one of the XRB's functions is: "to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires— (i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or (ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards".

Meaning of GAAP and the link between GAAP and GPFR

16. The FRA defines the terms 'generally accepted accounting practice' (GAAP) and 'non-GAAP standard' for the purpose of primary legislation that use these terms in the context of statutory reporting requirements.

17. According to the FRA, both the term 'GAAP' and the term 'non-GAAP standard' refer to standards issued by the XRB for financial reporting purposes – albeit a 'non-GAAP standard' needs to be specifically identified by the XRB as such. Appendix 1 provides further information and relevant FRA sections. Note: Currently, the only non-GAAP standard is the XRB's cash-based Tier 4 Standard, for PBEs in Tier 4 in the NFP and public sectors. All other accounting standards issued by the XRB are considered GAAP.

18. The definitions of 'GAAP' and 'non-GAAP standard' in the FRA do not specifically refer to the term 'general purpose financial reports' (GPFR). However, the link between the statutory requirement for certain entities to prepare financial statements in accordance with GAAP (or a non-GAAP standard) and the concept of GPFR becomes clear when considering the policy intent behind these statutory requirements.

19. Specifically: The Ministry of Economic Development (MED), which was the precursor to the Ministry of Business, Innovation and Employment (MBIE), published a Regulatory Impact Statement (RIS) on the review of the New Zealand financial reporting framework in 2011. That review resulted in the introduction of the current statutory financial reporting framework and ASF. The 2011 RIS notes the following:

    (a) Paragraph 2: "Financial reporting law addresses the following matters: (a) Whether an entity is required to prepare an annual GPFR".

    (b) Appendix 1: "GPFR is financial reporting that is carried out in accordance with GAAP or, to put it another way, financial reporting that is regulated under the Financial Reporting Act. GPFR is designed for external users (e.g. investors) who have a need for an entity's financial statements but are unable to demand them. Because those external users can have diverse information needs, financial reporting standards require a large number of disclosures to cover the information needs of all of the main potential users".

20. The 2011 RIS extracts above indicate that the statutory requirements to prepare financial statements in accordance with GAAP or a non-GAAP standard are intended to result in the preparation of GPFR for external users who cannot demand tailored information from the entity.

21. This link is further demonstrated in XRB A1, paragraph 1, which says the following:

    "The objectives of this Standard are to establish: (a) the accounting standards framework for those entities that have a statutory obligation, or that opt under an enactment, to prepare financial statements or financial reports that comply with generally accepted accounting practice (GAAP) or non-GAAP standards that are issued by the External Reporting Board (XRB), hereafter referred to as general purpose financial reports (GPFR) [...]".

Policy intent and user needs

22. The abovementioned 2011 RIS relating to the statutory reporting framework discussed certain indicators used in considering whether different types of entities are likely to have "external users who are unable to demand the financial information they need for decision-making or accountability reasons" – and therefore should have a statutory requirement to prepare GPFR. These indicators are explained below, per paragraph 6 of the RIS.

    (a) **'Public accountability'** [Note: Not the same meaning as in XRB A1]:
    "Is the entity effectively owned by the public and/or is it funded directly by the public? If so, it should be required to prepare and publish assured GPFR, unless there are outweighing compliance costs."

    (b) **Economic significance**:
    "Is the entity large? If so, its failure could have significant economic and social impacts. It

should be required to prepare and publish assured GPFR, unless there are outweighing commercial confidentiality and/or privacy-related costs. Where publication is not justified, the entity should be required to prepare assured GPFR and distribute them to the entity's owners or members;" and

(c) **Separation [between owners and management]**:
"Are the managers and the owners or members of the entity the same or different people? If there is a significant degree of separation, the default position should be preparation, assurance and distribution, but not publication. [...]".

23. Thus, we understand that the statutory requirements to prepare GPFR in accordance with XRB standards are based on the needs of external users who cannot demand specific financial information from the entity, but who need financial information to assess accountability and for decision-making purposes – taking into account the related economic and social impacts.

24. The table below lists some examples of entity types that have a statutory requirement to prepare GPFR (not a complete list) and the rationale per the 2011 RIS. In this table, the term 'public accountability' is used with the meaning described in the RIS (see above), rather than as per the definition in XRB A1. We have also included our considerations about the external users of these entities' financial reports. This is not an exhaustive list of users.

Table 3: Reasons for current statutory reporting requirements to prepare GPFR

Entity type	Statutory requirement to prepare GPFR	Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]	Comments on users [XRB staff comments]
FMC reporting entities (e.g. entities that issue shares or bonds to the public, managed investment schemes, licensed insurers and registered banks, among others)	Financial Markets Conduct Act 2013 (FMC Act) – requires compliance with GAAP	[*Note: As the FMC Act was not yet enacted at the time of the 2011 RIS, it does not use the term 'FMC reporting entities'*] **Public accountability** [*per RIS, not XRB A1*] "Issuers are publicly accountable because they seek money from the public, or take deposits and/or hold money for wide groups of outsiders in a fiduciary capacity"	Retail **investors** need financial information about companies that issues shares or bonds to the public, to decide whether to hold, buy or sell shares in the company – but are unable to demand tailored financial information from such companies. The requirement to prepare GPFR aim to help retail investors receive the information they need for decision-making. Similar considerations apply to **lenders and creditors** who do not have the power to demand specific information from entities, who need information to make decisions on providing funding/credit to these entities.
'Large' companies [as defined in the FRA]	Companies Act 1993 – requires compliance with GAAP	**Economic significance** "[...] there can be significant adverse impacts on a society when a large entity fails and that GPFR can contribute to reducing the risks of business failure."	Even if a large company is closely held, it is likely to have several **creditors** who may be unable to demand specific financial information from entities, but who need this information to decide whether to provide credit to the company. Also: The failure of an economically significant entity can significantly affect members of the public beyond direct users of financial statements, and the financial discipline inherent in GPFR, being based on a robust set of comparable requirements and transparent disclosures, could help reduce the risks of business failure.

Entity type	Statutory requirement to prepare GPFR	Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]	Comments on users [XRB staff comments]
'Large' partnerships [as defined in the FRA]	Partnership Law Act 2019 – requires compliance with GAAP	**Economic significance** "The benefits arise from reducing the risk of business failure if GAAP-compliant financial statements are prepared in accordance with a set of standards that senior management has no control over"	Similar considerations to 'large company'.
NZ government and its departments	Public Finance Act 1989 – requires compliance with GAAP	**Public accountability** [*per RIS, not XRB A1*] "All public sector entities are publicly accountable. Taxpayers and ratepayers effectively own all public sector entities. They also provide nearly all of the funding for most public sector entities."	**Taxpayers and ratepayers** are unable to demand specific financial reporting from public sector entities like government agencies and councils – but they need financial and service performance information about these entities for accountability purposes, e.g. to assess how the agency or council spent money raised from taxes and rates collected from the public. The requirement to prepare GPFR aims to ensure that these users receive the information they need. Some public sector entities issue bonds (e.g. the government and councils), and have creditors – so the considerations above relating to retail investors and creditors also apply.
Crown Entities (including state and state-integrated schools and tertiary education institutions)	Crown Entities Act 2004 – requires compliance with GAAP		
Councils and council-controlled organisations	Local Government Act 2002 – requires compliance with GAAP		
Registered charities	Charities Act 2005 • Requirement to comply with GAAP: Charities that meet the definition of 'specified not-for-profit (NFP) entity' in the FRA – i.e. operating payments are <u>$140,000 or more</u> in each of the 2 preceding accounting periods. • Other charities are required to comply with either GAAP or a non-GAAP standard.	**Public accountability** [*per RIS, not XRB A1*] All 25,000-odd[*] registered charities are publicly accountable because they accept donations from the public and/or earn revenue from assets that have been donated in the past. * *At the time of preparing the RIS* From a cost/benefit perspective, the RIS also noted that the most charities would be able to apply simple-format reporting requirements, i.e. the Tier 3 or Tier 4 Standard.	Members of the public who donate to charities **(donors)** are unable to demand specific financial information from charities, but need this information for accountability purposes, i.e. to assess how the charity spent money raised from donations – and potentially for the purpose of deciding whether to make further donations.

Entity type	Statutory requirement to prepare GPFR	Per RIS: Indicator that GPFR should be required [2011 RIS, unless stated otherwise]	Comments on users [XRB staff comments]
Incorporated societies	Incorporated Societies Act 2022 • Requirement to comply with GAAP: For societies that meet the definition of 'specified not-for-profit (NFP) entity' in the FRA – i.e. operating payments are $140,000 or more in each of the 2 preceding accounting periods. • Other incorporated societies are required to with either GAAP or a non-GAAP standard – excluding 'small' societies, i.e. societies that are not donee organisations and have operating payments and total assets below $50,000 in the two preceding accounting periods.	[*As the Incorporated Societies Act 2022 was enacted several years after the 2011 RIS was published, the extract below is from the RIS relating to the Incorporated Societies Act 2022*]: **Separation** "The relevant indicator in this case is the "separation" indicator, which applies when there is a degree of separation between the owners from management and the owners are therefore reliant on general purpose financial reports to assess the financial performance, financial position and cash flows of the entity. [...] this indicator is present in virtually all societies because of their structure. [...]. This separation suggests that some provision needs to be made to ensure members receive adequate information about their society." From a cost/benefit perspective, that RIS also noted that most incorporated societies that become subject to XRB standards would be able to apply the XRB's 'simple format reporting' standards, i.e. the Tier 3 or Tier 4 Standard.	Members of an incorporated society (and other resources providers and service recipients of the society) do not have direct access to the financial and service performance information that they need in relation to the incorporated society, and may not be able to demand specific information from the society – but they need such information for accountability and decision-making purposes.

Observations from Australia

25. In recent years, the AASB has introduced reforms to its financial reporting framework, which removed the ability to prepare SPFR for many entities.

26. In the past, several Australian entities that had a statutory requirement to prepare financial statements were permitted to self-assess whether they are a 'reporting entity', as was defined in

Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* (SAC 1). For example, such self-assessment was permitted for large proprietary companies who did not have 'public accountability' as aligned with the IASB's definition (i.e. whose debt or equity instruments were not traded on public markets, etc.) If these entities deemed themselves not to be a 'reporting entity', they were permitted to prepare SPFR – rather than complying with Australian Accounting Standards in full or with Australian Accounting Standards with disclosure concessions (previously referred to as 'RDR').

27. In 2020, the AASB issued the amending standard AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities*. That amending standard removed the ability to prepare SPFR for for-profit entities that have a statutory requirement to report in accordance with Australian Accounting Standards and those that are required to do so by their constitutional documents. Instead, those entities became required to prepare GPFR, in accordance with the full requirements of Australian Accounting Standards, but with Tier 2 entities being permitted disclosure concessions per AASB 1060. AASB 2020-2 became mandatory for periods beginning on or after 1 July 2021.

28. As explained in the Basis for Conclusions accompanying AASB 2020-2, this change was in response to "concern that SPFS lack consistency, comparability transparency and enforceability". Specifically:

    (a) With respect to companies that were lodging their SPFS with the Australian Securities and Investments Commission (ASIC), the AASB noted the following in the Basis for Conclusions: "The Board's research has identified that there are users of financial statements that are publicly lodged with the Australian Securities and Investments Commission (ASIC), and the Board has been informed by those users that comparability, transparency, comprehensibility and consistency are what is most important to them when reading financial statements. For example comparability of recognition and measurement (R&M) requirements in AAS was rated 88% in importance to primary users1 and 100% in importance to other users. They also expressed concern that key information is omitted from SPFSs (see paragraphs BC37-BC41)". [Paragraph BC2]

    (b) The AASB also noted in the Basis for Conclusions that "the solution to the SPFS problem provided by this Standard is to remove the ability of certain for-profit private sector entities to self-assess their financial reporting requirements and prepare SPFS when they are required to prepare financial statements that comply with AAS. [footnote omitted] This will improve the consistency, comparability, transparency and enforceability of financial statements, thus meeting the needs of users who are accessing these financial statements on a public register or otherwise." [Paragraph BC6]

29. Recently, the AASB also limited the ability of private sector not-for-profit entities to prepare SPFR – by issuing AASB 2026-2 *Amendments to Australian Accounting Standards – Extending the Application of the Conceptual Framework and Limiting the Ability of Not-for-Profit Entities to Prepare Special Purpose Financial Statements*. This standard applies to reporting periods beginning on or after 1 July 2029.

Viability of SPFR as a framework option to explore in the ASF review

30. The table below summarise our considerations on whether it would be viable for the XRB to develop SPFR standards. We have considered at a high level what this 'SPFR option' could involve and the implications on viability, in light of the statutory and policy context discussed above.

Table 4: Considerations of the viability of developing SPFR standards/requirements

What would the 'SPFR option' likely involve	XRB staff comments
Selecting a specific user or users who is likely to require SPFR from the entity, and developing requirements based on the specific user's likely information needs; or	**Advantages:** Could help entities meet the needs of the selected user more effectively and avoid the costs of catering for the information needs of a broader user group with diverse information needs **Disadvantages:** • As noted above, the current statutory financial reporting framework is set up so that certain entities are required to prepare GPFR in accordance with standards issued by the XRB – to meet diverse information needs of external users who are unable to demand tailored financial information from entities. Such external users include: o Existing or potential investors in a large or listed company who are not involved in management; o Taxpayers/ratepayers and their representatives in the case of a government agency or a council; and o Members of the public who donate to charities. If the XRB were to develop standards for the purpose of preparing SPFR for a specific selected user(s), there is a risk that the needs of the abovementioned broader external user groups would not be met. This would be inconsistent with the intent behind the statutory financial reporting framework, and could have negative economic and social impacts in New Zealand (see 'policy intent and user needs' above). • Currently, SPFR are typically prepared to meet the specific information needs of users who are able to demand specific information from the entity – e.g. Inland Revenue, who can request specific tax-related information. As such users are able to request specific information from the entity, it is not clear what problem SPFR standards would be solving. • Furthermore, if the XRB were to select a specific user whose needs the SPFR standards should aim to satisfy, this selection could be challenging and arbitrary.
Providing maximum flexibility in the standards in terms of recognition, measurement, presentation and disclosure requirements – so that entities are able to tailor their SPFR based on the information needs of the specific user for whom the report is prepared. For example, an SPFR standard could let entities choose whether to account for all leases as expenses or whether to recognise a right-of-use asset and lease liability in the statement of financial position, to	**Advantages:** Maximum flexibility on accounting policies would allow entities to tailor their financial statements to the specific information needs of selected specific users, potentially meeting that specific user's needs more effectively than under GPFR. This approach would also allow entities to decrease financial statements preparation costs by selecting the simplest accounting policies that are acceptable to whichever user the entity is focusing on. **Disadvantages:** • Similar to the discussion above: Entities that are currently required to prepare GPFR typically have several external users or a range of different external users that rely on GPFR for accountability and decision-making purposes, who cannot demand specific information from the entity. Under SPFR standards with maximum flexibility regarding accounting policies, there is a risk that the needs of these users would not be met. The impact of not meeting these users' needs could be significant for these users and for the economy, considering that current statutory requirements to prepare GPFR apply to economically significant entities and those that are funded by the public. • Furthermore, maximum flexibility is likely to decrease comparability between entities and between the financial statements of an entity from one period to the next. Lack of comparability is likely to negatively

What would the 'SPFR option' likely involve	XRB staff comments
initially recognise donated property, plant and equipment at fair value or at their cost of nil, to recognise or not recognise deferred tax, to measure financial instruments at either cost or fair value, to recognise revenue on a cash basis or evenly over time or based on the fulfilment of performance obligations, to amortise or not amortise goodwill, etc.	impact investors that invest in for-profit companies, as it would be more challenging for them to decide which companies to invest in – and in the case of economically significant companies, these challenges could have significant impacts the economy. A similar concern can arise for donors and grantors in the not-for-profit space. While taxpayers and ratepayers and their representatives do not necessarily make decisions based on comparing the financial statements of different public sector entities, lack of comparability due to maximum flexibility in accounting policies could make it harder for such users to understand public sector entities' financial statements, impeding accountability. • If there are specific accounting requirements in IFRS Accounting Standards and/or IPSAS that NZ reporting entities currently find challenging or costly, and if modifications to these requirements are possible in a way that still meets user needs, this could be explored as part of the 'locally modified accounting standards' option.

31. For the reasons above (and considering recent reforms in Australia limiting the ability to prepare SPFR), we consider that the development of SPFR requirements is not a viable option to explore as part of the ASF review, for either the for-profit or PBE sectors.

32. We note that, regardless of our considerations in the ASF project, entities outside the statutory 'GAAP/non-GAAP standard' reporting framework may continue to prepare SPFR voluntarily for specific users. Not developing XRB SPFR requirements would therefore not prevent SPFR from being prepared where needed. Rather, this course of action would preserve the distinction between statutory GPFR and user-specific reporting outside the XRB's ASF. We will also consider whether website or other communications would be useful to clarify that entities outside the statutory 'GAAP/non-GAAP' reporting framework may prepare SPFR voluntarily.

Indicative wording for the Discussion Paper

33. We propose to explain our considerations in the Discussion Paper by:

    (a) Explaining the meaning of SPFR as compared to GPFR, using a summarised version of the section 'General purpose vs special purpose financial reporting' in this memo;

    (b) Explaining why we consider that developing SPFR requirements is not a viable option to explore in the ASF review, using a summarised version of Table 3 (which also refers to the policy intent behind the current statutory requirements to prepare GPFR).

34. The indicative text that we propose to include in the Discussion Paper is shown below.

Figure 2: Indicative draft wording on SPFR for the ASF Discussion Paper

XRB-developed special purpose financial reporting requirements *not* considered a viable option

The XRB currently develops and issues accounting standards for the purpose of preparing general purpose financial reports (GPFR) – for application by entities that are required by primary legislation to prepare financial statements in accordance with 'generally accepted accounting practice' GAAP or a 'non-GAAP standard'.

The statutory requirement to prepare GPFR currently applies to entities that have **large and/or diverse groups of external users** who rely on financial information about the entity for accountability and/or decision-making purposes, but who cannot demand specific financial information from the entity.

For example, such users include:

- Existing or potential investors of a large or listed company who are not involved in managing the company – who need financial information about the company to decide whether to hold, buy or sell shares in the company, but are not able to demand tailored financial reports from the company;
- Taxpayers/ratepayers and their representatives – who need financial and service performance information on government agencies and councils for accountability purposes, but are unable to demand specific reports;
- Members of the public who donate to charities – who need financial and service performance information on charities for accountability purposes and to make decisions about donating, but are unable to demand specific reports.

Special purpose financial reports (SPFR) are tailored to the needs of specific users who have the power to require an entity to include specific information in a financial report. SPFR allow entities to select accounting policies that meet the needs of a specific user(s) in a targeted way – while avoiding the costs of applying in full the accounting requirements in, say, NZ IFRS or PBE Standards, which cater for the needs for broader user groups.

We considered whether, as part of the review of the ASF, we should explore an option whereby the XRB would develop standards or requirements for preparing SPFR. This could involve either the XRB selecting a specific type of user and developing requirements to meet that specific user's needs – or allowing maximum flexibility in the selection of accounting policies in standards. We do not consider this to be viable, because there is a risk that the needs of the broad and diverse user groups mentioned above, who rely on financial reporting by entities in the scope of the ASF for accountability and/or decision-making purposes, will not be met. This could have negative economic and social consequences. This may also be inconsistent with the XRB's current mandate.

Therefore, we do not consider XRB-developed SPFR standards or requirements to be a viable option to explore as part of the ASF review.

Question for the Board

Q1. Does the Board have any feedback on:

(a) Our considerations relating to the viability of developing SPFR requirements and the recommendation that this is not a viable option to explore as part of the ASF review; and

(b) Our suggestion on how to explain these considerations and recommended conclusions to the public?

Next steps

35. We will update the draft wording for the ASF discussion paper as per the Board's feedback at this meeting.

Appendix 1

Meaning of GAAP and a non-GAAP standard in primary legislation

Both the term 'generally accepted accounting practice' (GAAP) and the term 'non-GAAP standard' refer to standards issued by the XRB for financial reporting purposes – albeit a 'non-GAAP standard' needs to be specifically identified by the XRB as such. This is demonstrated in the graphic below.

Figure A1: Definitions of GAAP and related terms in the FRA

GAAP (FRA s8)

"financial statements, group financial statements, a report, or other information complies with **generally accepted accounting practice** only if the report, statements, or information comply with:

(a) applicable **financial reporting standards**; and

(b) in relation to matters for which no provision is made in applicable financial reporting standards, an **authoritative notice**".

Non-GAAP standard (FRA s5)

"**financial reporting standard** that is stated in the standard to be a non-GAAP standard"

Financial reporting standard (FRA s5)

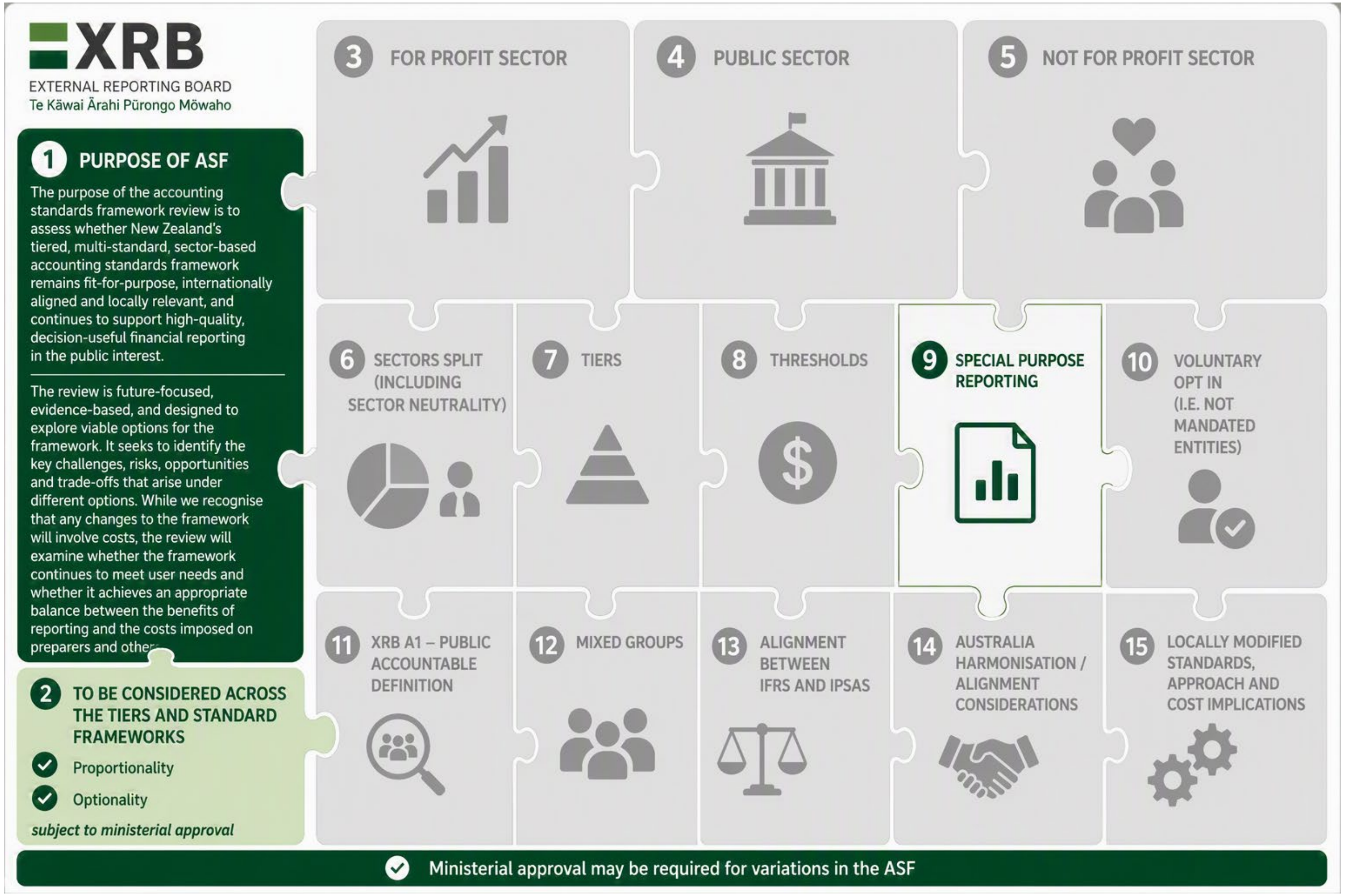
"Financial reporting standard **issued by the Board [i.e. XRB] under section 12 [of FRA];** and includes an amendment to a financial reporting standard that is issued by the Board."

Authoritative notice (FRA s5)

"Notice **issued under section 12(c) [of FRA by XRB];** and includes an amendment to an authoritative notice that is issued by the Board [i.e. the XRB]"

Appendix 2:

Special purpose reporting



Special purpose reporting

We heard: *Entities may want to adopt a more flexible approach to accounting requirements which involves selecting relevant IFRS or IPSAS standards and disclosing their accounting policies, including departures (e.g. not applying IFRS 16 Leases).*

Rationale for this option

- May reduce cost and complexity for certain entities
- Allows targeted application of requirements based on entity circumstances and for specific users

Legislative considerations

- XRB currently issues accounting standards for the purpose of **primary legislation** that requires reporting in accordance with **Generally Accepted Accounting Practice (GAAP) or a non-GAAP standard** (per mandate in FRA section 12)
- Statutory requirement to report in accordance with GAAP/non-GAAP standard is currently associated with **general purpose financial reports (GPFR)**
- Statutory GPFR requirement applies to entities that have **large and/or diverse groups** that rely on financial information about the entity for **accountability and/or decision-making purposes**, but **cannot demand specific reporting from an entity** – e.g. investors in large/listed company, taxpayers and ratepayers (re: public sector entities), members of the public donating to charities, etc.
- In this context, XRB's current standards (e.g. NZ IFRS, PBE Standards) provide a coherent and comprehensive framework supporting the preparation of GPFR, aiming to address the information needs of broad user groups (as described in the relevant Conceptual Frameworks)

Key consideration and risks

- **SPFR** are **tailored to the needs of specific users** who have **power to require an entity to report specific information**
- If the XRB were developed SPFR standards/requirements (instead of standards supporting preparation of GPFR), there is a risk that the **needs of the broad and diverse user groups currently served by GPFR would not be met**.
- An SPFR option would **reduce comparability** across entities and increase **variability in accounting treatments for similar transactions**
- SPFR option may mean less clarity on what constitutes compliance with a reporting framework and - potential challenges for audit and regulatory oversight

SPFR not considered a viable option to explore in ASF review

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
Prepared by:	Nimash Bhikha
Through:	Carly Berry; Leana van Heerden; Michelle Lombaard

☒ **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

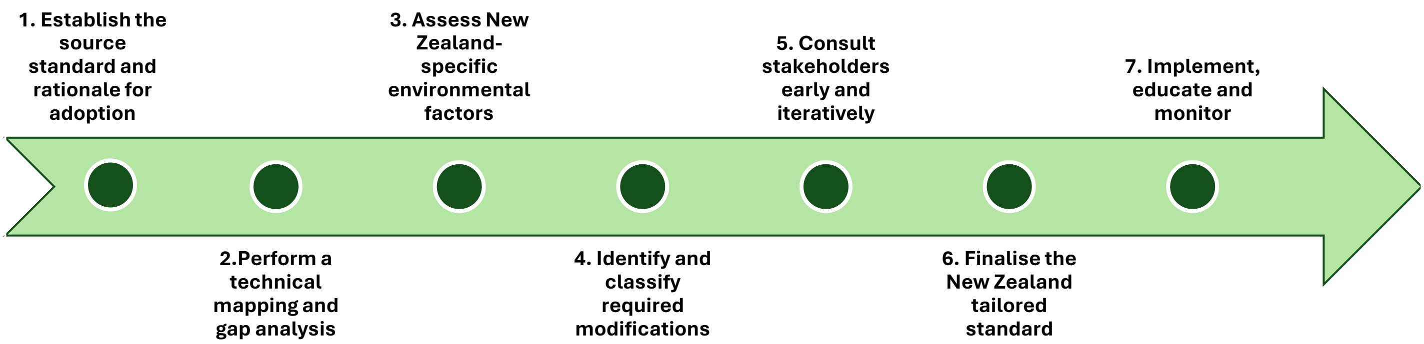
Indicative approach for discussion paper

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.

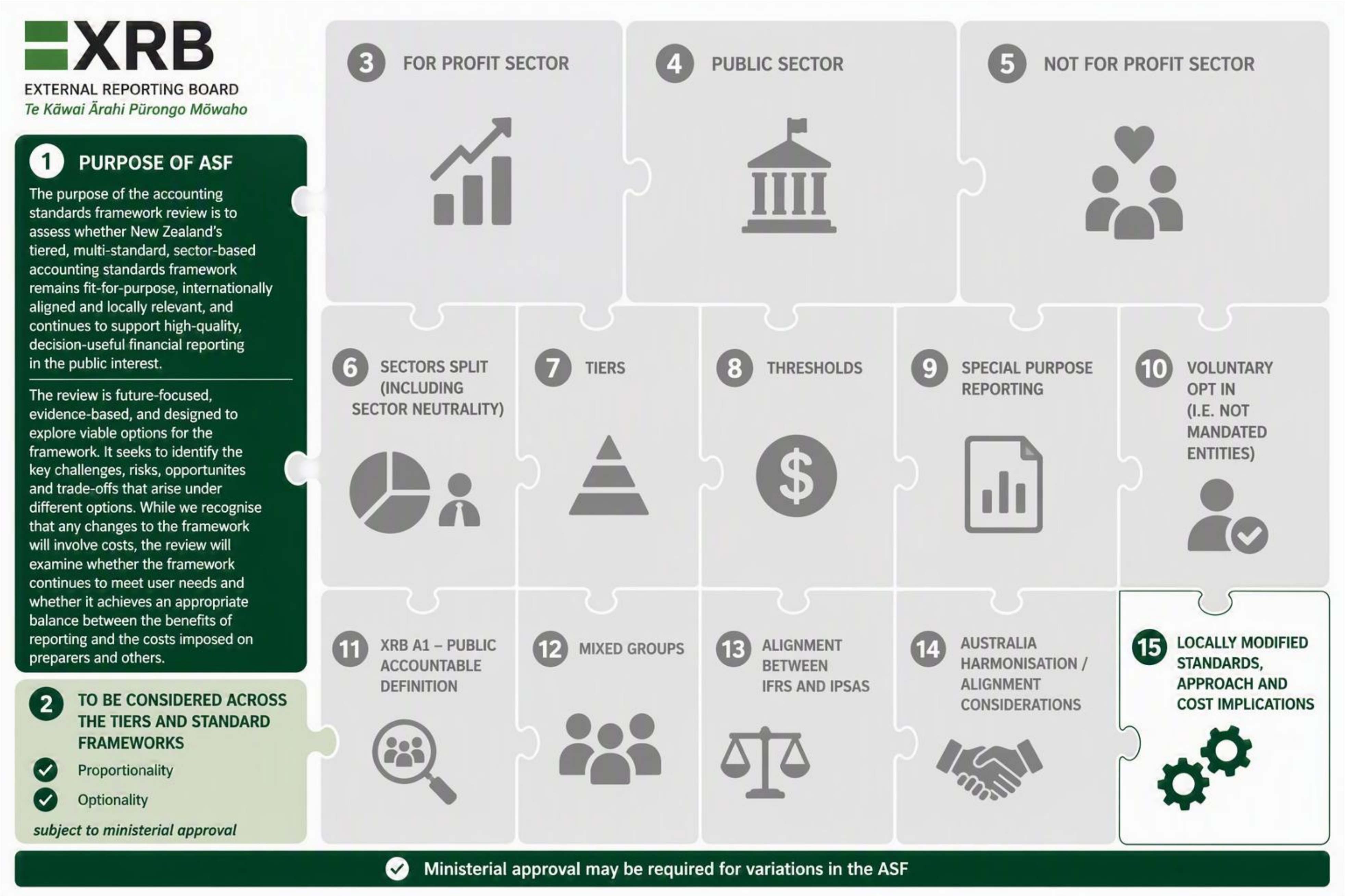
Appendix 1: Overview Slides

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

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) – For-profit sector overview**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Inputs by:	Leana Van Heerden
Through:	Nimash Bhikha; Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. The purpose of this paper is to provide the Board with the common for-profit context, legislative pathway and assessment approach for the Tier 1 and Tier 2 for-profit reporting framework papers as part of the Accounting Standards Framework (**ASF**) review.

Recommendations

2. We recommend the Board:

   (a) **NOTE** the common context and assessment approach for the Tier 1 and Tier 2 for-profit reporting framework review papers; and

   (b) **PROVIDE FEEDBACK** on whether any additional common matters should be considered across this paper relating to the Tier 1 and Tier 2 for-profit entities.

Scope and how to read this suite of papers

3. This paper covers matters relevant to the for-profit reporting framework as a whole, including how the framework operates, how legislative reporting obligations interact with the ASF, why the review is being undertaken, the methodology being applied and the common areas of analysis relevant across the for-profit sector.

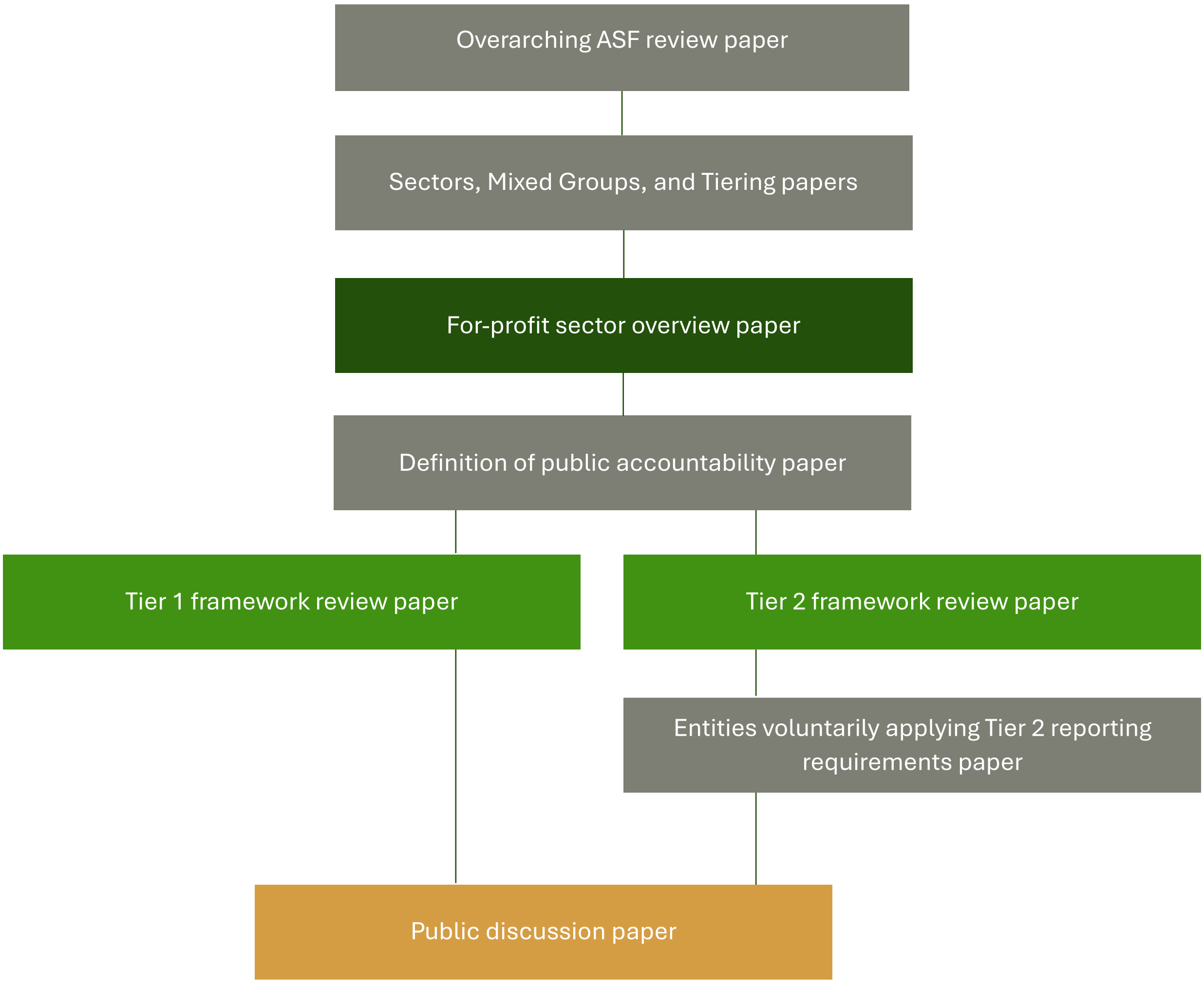
4. This paper should be read as the common for-profit context paper in the ASF review suite. It supports the Tier 1 and Tier 2 for-profit reporting framework papers by setting out the shared context, legislative pathway, assessment criteria and common areas of analysis.

5. The underlying Tier 1 and Tier 2 for-profit reporting framework papers apply this common approach to their respective reporting populations and framework options. Broader matters relating to the overall ASF, sector structure, tiering structure, mixed groups and public accountability are addressed in separate papers.

Contents of this paper

6. The diagram below shows where the papers highlighted in green sit within the broader ASF review suite and how they relate to the Tier 1 and Tier 2 for-profit framework papers.

Figure 1: Structure of for-profit ASF Review papers



Background: current for-profit reporting framework

Where for-profit sector reporting sits within the ASF

7. The ASF connects New Zealand's statutory financial reporting requirements with the accounting standards issued by the External Reporting Board (**XRB**). Legislation determines which entities must prepare financial statements that comply with generally accepted

accounting practice (**GAAP**). Once that requirement applies, the ASF determines the applicable sector, tier, thresholds and suite of standards.

8. Within the ASF, the for-profit sector reporting framework applies to entities that are required to prepare GAAP-compliant financial statements and are not reporting under the public benefit entity (**PBE**) framework. It sits alongside the PBE framework as part of New Zealand's sector-based accounting standards framework.

9. Appendix 1 provides a high-level diagram of the for-profit reporting pathway from legislation. Appendix 2a provides further detail on the relevant legislative requirements, and Appendix 2b summarises the for-profit tiering structure.

What the current for-profit sector reporting framework is

10. Currently, the ASF is a two-sector, multi-tier structure, with different accounting standards or requirements applying in each tier for each sector. In the for-profit sector, there are two tiers of reporting: Tier 1 and Tier 2. Tier 1 is the default tier. However, an entity that does not have public accountability (as defined in XRB A1 paragraph 7) and is not large (as defined) may elect to apply Tier 2 For-profit Accounting Requirements. For consideration on the definition of public accountability refer to **Agenda Item 6.1d**.

11. The for-profit sector reporting framework is currently structured for entities required to prepare GAAP-compliant financial statements. It uses the International Financial Reporting Standards (**IFRS Accounting Standards**) issued by the International Accounting Standards Board (**IASB**) as the basis for New Zealand's for-profit accounting standards.

12. IFRS accounting standards are a suite of global accounting standards as issued by the IASB. These include IAS Standards and IFRIC Interpretations and SIC Interpretations developed by the IFRS Interpretations Committee or its predecessors including the International Financial Reporting Interpretations Committee or the Standing Interpretations Committee.

13. In New Zealand, IFRS Accounting Standards are issued as New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**). Tier 1 for-profit entities apply NZ IFRS, which is considered converged with IFRS Accounting Standards because it retains the full recognition, measurement, presentation and disclosure requirements of the international standards. Tier 2 for-profit entities apply NZ IFRS with Reduced Disclosure Requirements (**NZ IFRS RDR**), which retains the same recognition and measurement requirements as Tier 1 but reduces the level of disclosure required.

14. Convergence does not mean that every New Zealand standard is identical in wording to the IFRS Accounting Standard issued by the IASB. New Zealand-specific wording and other domestic requirements are included where needed to support legal issuance and application in New Zealand. Further details on jurisdiction-specific wording and licensing arrangements are noted below, and further information on IFRS Accounting Standards, including their development and international use, is provided in the IFRS factsheet within the Tier 1 and Tier 2 papers.

15. For the purposes of the for-profit suite of papers, references to an IFRS-based or converged framework mean a framework that remains aligned with IFRS Accounting Standards for the underlying recognition and measurement requirements.

New Zealand alterations to IFRS Accounting Standards

16. A relevant design consideration for the current for-profit reporting framework is how IFRS Accounting Standards are adopted and maintained for use in New Zealand through NZ IFRS.

This includes jurisdiction-specific wording and copyright and licensing arrangements that support the legal issuance and use of IFRS Accounting Standards in New Zealand.

17. This is consistent with the IFRS Foundation's published adoption and copyright material, including its guidance on translation, adoption and copyright, and its adoption and copyright webpage, which states that modification or partial adoption of IFRS Accounting Standards conflicts with the Foundation's objective of a single set of high-quality, globally accepted suite of accounting standards. This is also consistent with IAS 1 *Presentation of Financial Statements* that an unreserved statement of IFRS compliance requires compliance with all applicable IFRS Accounting Standards.

18. The core benefit of a comprehensive global reporting framework is that it allows entities in different jurisdictions to report using a common financial language with common terms, meanings and expectations. This improves comparability, supports international investment and capital flows, reduces cross-border reporting complexity, and enables users to understand and compare financial information on a consistent basis across jurisdictions. In practice, this means IFRS Accounting Standards must be adopted as a full suite by jurisdictions which want to fully benefit from this framework. A jurisdiction cannot selectively adopt some standards and still enable entities to state compliance with IFRS Accounting Standards, as there will be misalignment, inconsistent reporting and comparability challenges which will diminish the stated benefits for all global users.

19. This also mean that the core recognition, measurement, presentation and disclosure requirements in individual IFRS Accounting Standards cannot be amended, changed or deleted for Tier 1 for-profit entities, as each requirement forms a consistent and comparable requirement across jurisdictions which use IFRS Accounting Standards, resulting in a level playing field and consistent information for that jurisdiction's investors and global investors.

20. NZ IFRS RDR provides reduced disclosures for Tier 2 for-profit entities by marking disclosure concessions within NZ IFRS using an asterisk. The underlying IFRS Accounting Standards are therefore not deleted or rewritten for the Tier 2 population, and the asterisk simply identifies disclosure requirements from which Tier 2 entities are exempt, while the core recognition, measurement and presentation requirements remain unchanged. Tier 2 entities are unable to assert compliance with IFRS Accounting Standards if they choose to use a RDR concession, however this international comparison is not considered as significant for Tier 2 entities, given their users.

21. It is important to note that this is an IFRS framework-specific matter rather than a separate for-profit sector consideration. The coherence of the entire suite of IFRS standards is a critical design feature of the IFRS framework and individual IFRS standards are developed to work together with each other as a whole. This is relevant to this paper because they affect how stakeholders navigate and understand the relationship between NZ IFRS, NZ IFRS RDR and IFRS Accounting Standards, and the extent to which the New Zealand reporting framework can diverge from the underlying international requirements before the benefits of international comparability are lost.

Trans- Tasman harmonisation (Australia consideration)

22. In establishing the for-profit tier framework, the XRB placed significant weight on trans-Tasman harmonisation, reflecting both Government policy and the number of entities with reporting obligations in New Zealand and Australia. The XRB considered harmonisation with Australia to be a particularly important factor in establishing the for-profit tier framework given

the Government's policy and the number of for-profit entities with trans-Tasman reporting obligations (noted in XRB A1 paragraph BC16).

23. The XRB also considered it desirable that there be a high degree of consistency between the for-profit tier structure (and the related accounting standards) in New Zealand and Australia. Use of public accountability as the primary for-profit criterion together with a deeming approach is broadly consistent with the approach used in Australia. In Australia all entities meeting the public accountability definition report under Tier 1 and certain additional entities have been deemed to be in Tier 1. The deeming approach in New Zealand in relation to Financial Market Conduct (**FMC**) reporting entities that are considered to have a "higher level of public accountability" (**HLPA**), and application of the IASB's public accountability definition to other entities, means New Zealand for-profit entities required to be in Tier 1 are therefore broadly consistent with international entities that have public accountability and with Tier 1 entities in Australia.

Evolution of the for-profit reporting framework

24. This section explains the starting point for the current for-profit framework. Before the current ASF was introduced, New Zealand used a sector-neutral framework with differential reporting concessions for qualifying entities. The 2012 ASF changes replaced that approach with separate for-profit and Public Benefit Entity (**PBE**) frameworks[1, 2] and introduced the current tiered approach for for-profit entities.

25. For for-profit entities, the current framework retained an IFRS-based starting point. Tier 1 entities apply full NZ IFRS, while Tier 2 entities apply NZ IFRS RDR, which retains the same recognition and measurement requirements as Tier 1 but provides reduced disclosures. Temporary Tier 3 and Tier 4 for-profit categories were later removed following the financial reporting law reforms, including the Financial Reporting Act 2013 (**FRA**) and the Financial Markets Conduct Act 2013 (**FMCA**).

26. This history is relevant because the Tier 1 and Tier 2 framework option assessments start from the current two-tier, IFRS-based model. It also explains why the Tier 2 assessment considers whether disclosure-based relief remains appropriate, or whether other framework options may better address proportionality, cost and user needs.

Why the ASF review is considering the for-profit reporting framework

27. The for-profit reporting environment has changed since the current tiered framework was established in 2012. Relevant developments include growing complexities in IFRS Accounting Standards, entity structures, financing arrangements, cross-border activity, user expectations, preparer capability and international reporting practice.

28. The current legislative and regulatory settings, including the FMCA and related financial reporting requirements, also form part of the context for the review. Those settings affect which entities are required to prepare GAAP-compliant financial statements and, for some FMC reporting entities, how public accountability interacts with Tier 1 reporting under the ASF. For consideration on the definition of public accountability refer to **Agenda Item 6.1d**.

29. The review provides an opportunity to consider whether the current for-profit framework remains coherent, proportionate and operable, and to consider the implications and trade-offs of retaining or changing the current Tier 1 and Tier 2 settings.

[1] XRB, Accounting Standards Framework for general purpose financial reporting by public benefit entities consultation paper, 2011
[2] XRB, Accounting Standards Framework for general purpose financial reporting by for-profit entities consultation paper, 2011

30. The review does not start from an assumption that the current framework should change or be retained. It considers the current framework and possible alternatives using the common methodology and assessment criteria developed for the ASF review. The next section explains how that approach is applied in the Tier 1 and Tier 2 for-profit papers.

Structure and assessment approach for the for-profit framework papers

31. The Tier 1 and Tier 2 for-profit framework review papers use a common structure and assessment approach to supports consistency in how framework options are described, assessed and compared, while allowing each paper to reflect the circumstances of the relevant reporting population.

32. Table 1 below is included as a navigation aid to show where the common assessment criteria and common areas of analysis are embedded in those papers; it does not add separate analysis or assessment criteria in those papers.

Table 1: Navigation aid: structure of the for-profit tier review papers

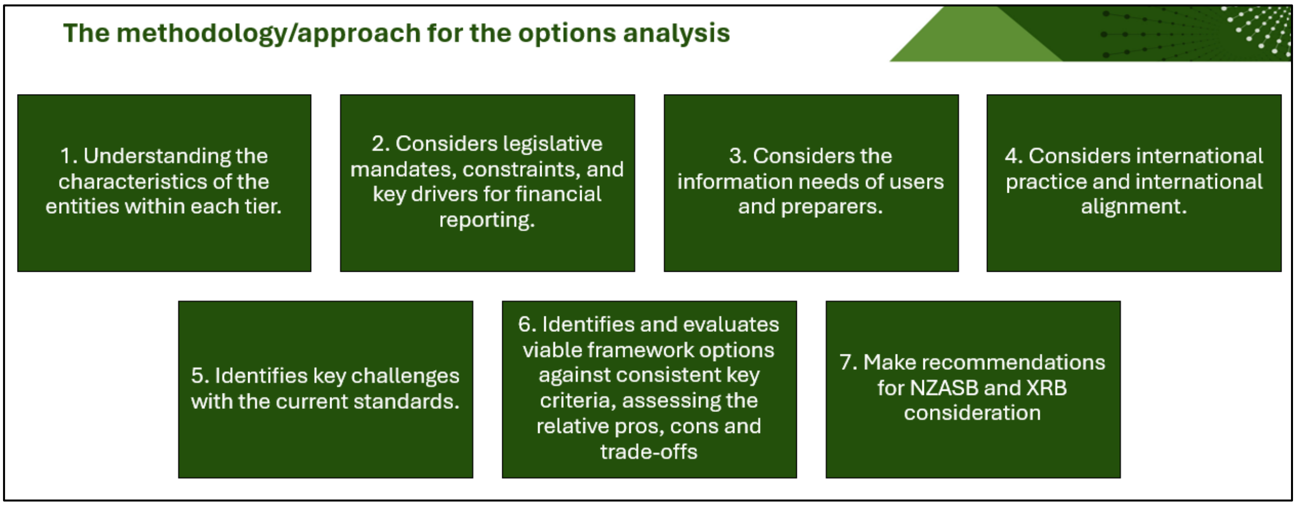
Section in the tier papers	Purpose of the section
Background and context for relevant tier	Provides the tier-specific context needed to understand the reporting population, current requirements and framework options considered in the paper.
Legislative and regulatory environment	Explains the legislative and regulatory settings that determine which entities prepare GAAP-compliant financial statements and how tier eligibility applies.
Characteristics of the reporting population	Describes the nature, scale and diversity of entities within the relevant tier, including features that may affect the framework assessment.
Information needs of users and preparer considerations	Considers the information needs of users and the practical, audit and cost considerations for preparers applying the framework
International practice, alignment and comparability considerations	Considers approaches used in other jurisdictions and how international alignment affects comparability, recognisability and sustainability in New Zealand.
Practical challenges with the current tier framework	Explains how the current framework operates in practice, including identified benefits, challenges and implementation issues.
Reporting framework options considered	Identifies the framework options considered for the relevant tier, including the current framework and alternative options within the scope of the tier paper.
Optionality and framework coherence considerations	Considers whether the framework options support flexibility while maintaining coherence, comparability, understandability and operability across the tier and wider for-profit framework.
Analysis of framework options	Assesses each framework option using the common framework-level criteria and identifies the key benefits, limitations and implications of each option.

Summary observations and framework options for consultation	Summarises the overall assessment and identifies the framework option or options to be presented for consideration in the public discussion paper.

33. Each for-profit tier paper assesses its framework options against a common set of framework-level assessment criteria. This paper first sets out those criteria, then outlines the common areas of analysis embedded in both the Tier 1 and Tier 2 papers (**Agenda Item 8.1b and 8.1c**).

Framework-level assessment approach

34. We have applied a consistent methodology to perform our framework-level assessment. This is depicted below:



35. The Tier 1 and Tier 2 papers assess each framework option using the framework-level criteria indicated in Figure 1 below. The criteria provide a common basis for considering the relative merits, limitations and implications of each option. Using the same criteria across the two papers helps make the analysis transparent and comparable. The relevance and emphasis of each criterion may differ between the Tier 1 and Tier 2 assessments, depending on the nature of the reporting population and the framework options being considered.

36. The full set of criteria is relevant to the for-profit framework as a whole, but the 'movement between tiers' criterion is applied mainly in the Tier 2 paper. In the Tier 1 paper, it is considered only where a Tier 1 framework option affects overall for-profit framework coherence, including its relationship with Tier 2. This is why the Tier 1 and Tier 2 papers should be read together, as some options may have broader implications for group reporting, movement between tiers, comparability and the reporting ecosystem.

37. The criteria are not weighted, and no single criterion determines the assessment. They are applied collectively to each framework option, with red, amber and green indicators used to show the overall staff assessment.

38. The criteria are intended to support structured judgement rather than operate as a mechanical scoring model. Their relative importance may differ depending on the framework option and the reporting population affected. For example, international alignment may be more important for entities with overseas ownership or group reporting, while simplification and operability may be more important for closely held entities with limited reporting capability.

Figure 2: Framework assessment criteria

Criterion	Focus of assessment
1. Movement between tiers	Interoperability with Tier 1 (accounting and workforce)
2. Technical fitness	Technical fitness; coherent suite capable of handling complex transactions developed with user needs in mind. (preparers and user focus)
3. Simplification	Simplification options. (addressing preparers concern about complexity)
4. International alignment	Internationally aligned. Internationally recognised and comparable – including Australia.
5. Local relevance	Ability to make local modifications and/or influence internationally to enable local relevance.
6. Ecosystem	Ecosystem and workforce considerations. (the market)
7. Transition costs	Cost of change. (transition costs for preparer and ecosystem)
8. Ongoing costs	Ongoing costs and maintain the standards (i.e. how often are changes expected). (preparer focus)

Common areas of analysis relevant to for-profit reporting entities

39. The following common areas of analysis recur across the Tier 1 and Tier 2 papers. They are embedded in the structure of both papers and considered where relevant in the tier-level analysis. They support a consistent reading of the tier papers but are not separate assessment criteria and do not limit the matters considered for each framework option.

40. These areas of analysis are:

   - Information needs of users and preparer considerations – considers who uses for-profit financial statements, what information they need, and whether preparers can apply the framework in a way that is practical, auditable and proportionate.
   - International practice, alignment and comparability considerations – considers how New Zealand's for-profit framework compares with approaches used in other jurisdictions, and the extent to which alignment supports comparability across entities, groups, sectors and jurisdictions. International comparisons are considered in light of New Zealand's economy size and reporting ecosystem capacity, including whether approaches used elsewhere would be realistic and sustainable in New Zealand. Options that provide flexibility or domestic tailoring may also require additional systems, guidance, training, audit methodologies and technical capability across the reporting environment. Appendix 3a and Appendix 3b provide supporting information on global adoption of IFRS Accounting Standards, while Appendix 4 provides selected comparisons with similar-sized economies.

- Optionality and framework coherence considerations – considers whether allowing more than one reporting framework within a tier, or across the for-profit framework, would support flexibility or reduce coherence, comparability, understandability and operability. Optionality is a framework design question because it affects not only entity choice, but also the consistency and operation of the for-profit reporting framework as a whole.

41. These discussion areas are not ranked, and their relevance may differ between Tier 1 and Tier 2. They provide contextual reference points for the Tier 1 and Tier 2 assessments and do not determine the outcome of any framework option assessment.

Question for the Board

Q1. Does the Board have any **FEEDBACK** on common matters presented within this paper, and whether any additional contextual matters should be considered in relation to Tier 1 and Tier 2 for-profit entities?

Appendix content

The appendices provide supporting material for the main paper. They give the Board further detail on the for-profit reporting pathway, legislative context, current ASF tier settings, the common structure of the for-profit tier review papers, international IFRS adoption and selected comparisons with economies of broadly similar population size to New Zealand.

The table below summarises the purpose of each appendix.

Appendix	Title	What it contains
Appendix 1	For-profit reporting pathway from legislation	Provides a high-level diagram of the for-profit reporting pathway, from legislative reporting obligations to ASF tier allocation and the applicable Tier 1 and Tier 2 standards.
Appendix 2a	Legislative requirements to apply XRB accounting standards	Summarises key legislative provisions that require entities to prepare GAAP-compliant financial statements and therefore apply XRB accounting standards.
Appendix 2b	Accounting Standards Framework tier settings	Summarises the current for-profit ASF tier settings, including Tier 1 and Tier 2 criteria and applicable standards.
Appendix 3a	Global IFRS adoption for domestic public companies – overview	Provides an overview of IFRS adoption by jurisdiction as contextual material for considering international alignment.
Appendix 3b	Global IFRS adoption for domestic public companies – supporting data	Provides supporting jurisdictional adoption data for domestic public companies.
Appendix 4	Selected economies with similar population size to New Zealand	Provides selected contextual comparisons with economies of broadly similar population size to inform consideration of New Zealand's economy size and reporting ecosystem capacity.

Appendix 1 – For-profit reporting pathway from legislation

The diagram below illustrates the current for-profit reporting pathway, from legislative reporting requirements to ASF tier allocation and the applicable Tier 1 and Tier 2 standards. Further detail on the relevant legislative provisions and ASF settings is provided in Appendix 2a and Appendix 2b.

Legislation

Determines whether an entity must prepare GAAP-compliant financial statements

Entity required to prepare GAAP-compliant financial statements – Referred to as general purpose financial reports (GPFR)

Accounting Standards Framework

Allocates the entity to the applicable for-profit reporting tier

Tier 1 **NZ IFRS**	**Tier 2** **NZ IFRS with RDR**
Full recognition, measurement, presentation and disclosure requirements	Full recognition, measurement, presentation with reduced disclosures

Recognition and measurement

Common across Tier 1 and Tier 2

Tier 1 disclosures **Full**	**Tier 2 disclosures** **Reduced**

Appendix 2a – Legislative requirements to apply XRB accounting standards

This appendix summarises key legislative pathways relevant to the for-profit overview paper. It is not intended to be a complete legal analysis of all financial reporting obligations.

'Who' must prepare GAAP-compliant reports — determined by Parliament

Under the Financial Reporting Act 2013 (**FRA 2013**) and other relevant enactments, Parliament determines which entities are required to prepare financial statements or financial reports that comply with generally accepted accounting practice (**GAAP**) or non-GAAP standards issued by the XRB.

The XRB A1 Standard, which creates the Accounting Standards Framework, refers to these financial statements and financial reports collectively as general purpose financial reports (**GPFR**). Under section 12 of the FRA 2013, the XRB develops the accounting standards that comprise GAAP. Together, these responsibilities operate through the Financial Reporting Framework and the Accounting Standards Framework.

A Financial Reporting Framework

Set by the Financial Reporting Act 2013 and other primary legislation — determines which entities must prepare general purpose financial reports and comply with GAAP (XRB-issued standards).

B Accounting Standards Framework

Issued by the XRB — determines which accounting standards apply to entities required to prepare GAAP-compliant financial statements.

'Who' must apply — key legislative requirements *(not exhaustive and specific to the for-profit sector)*

Primary legislation	Legislative requirement	Relevant thresholds & definitions
Companies Act 1993 Sections 200–202	Specified company types must comply with GAAP: large companies, public entities, large overseas companies, and companies with 10 or more shareholders (unless opted out) or fewer than 10 (if opted in).	Financial Reporting Act 2013 (s45): • 'large' = assets over \$66m or revenue over \$33m (in preceding two accounting periods); • 'large overseas company' = assets over \$22m or revenue over \$11m.
Financial Markets Conduct Act 2013 Sections 460–461	GAAP-compliant financial reporting required for FMC reporting entities. *(FMC reporting entity status and public accountability are considered in the Definition of public accountability paper.)*	—

Other legislation may also require entities to prepare GAAP-compliant financial statements in particular circumstances. For example, the Building Societies Act 1965, Energy Companies Act 1992, Incorporated Societies Act 2022 and Māori Community Development Act 1962. This appendix highlights the principal legislative pathways relevant to the for-profit sector and is not intended to be exhaustive.

Appendix 2b – Accounting Standards Framework tier settings

'What' accounting standards apply — determined by the XRB

For mandated for-profit entities (those that have a statutory obligation, or that opt under an enactment, to prepare financial statements or financial reports that comply with GAAP), Tier 1 is the starting point. Each entity must consider whether it meets the Tier 1 criteria first to meet their statutory obligations under legislation.

If the Tier 1 criteria does not apply, the entity may elect to report in Tier 2 and apply NZ IFRS RDR, reflecting proportionality and cost-benefit considerations while retaining the same recognition and measurement requirements as Tier 1. Reporting in Tier 2 is an individual choice by each for-profit entity if they meet the eligibility criteria.

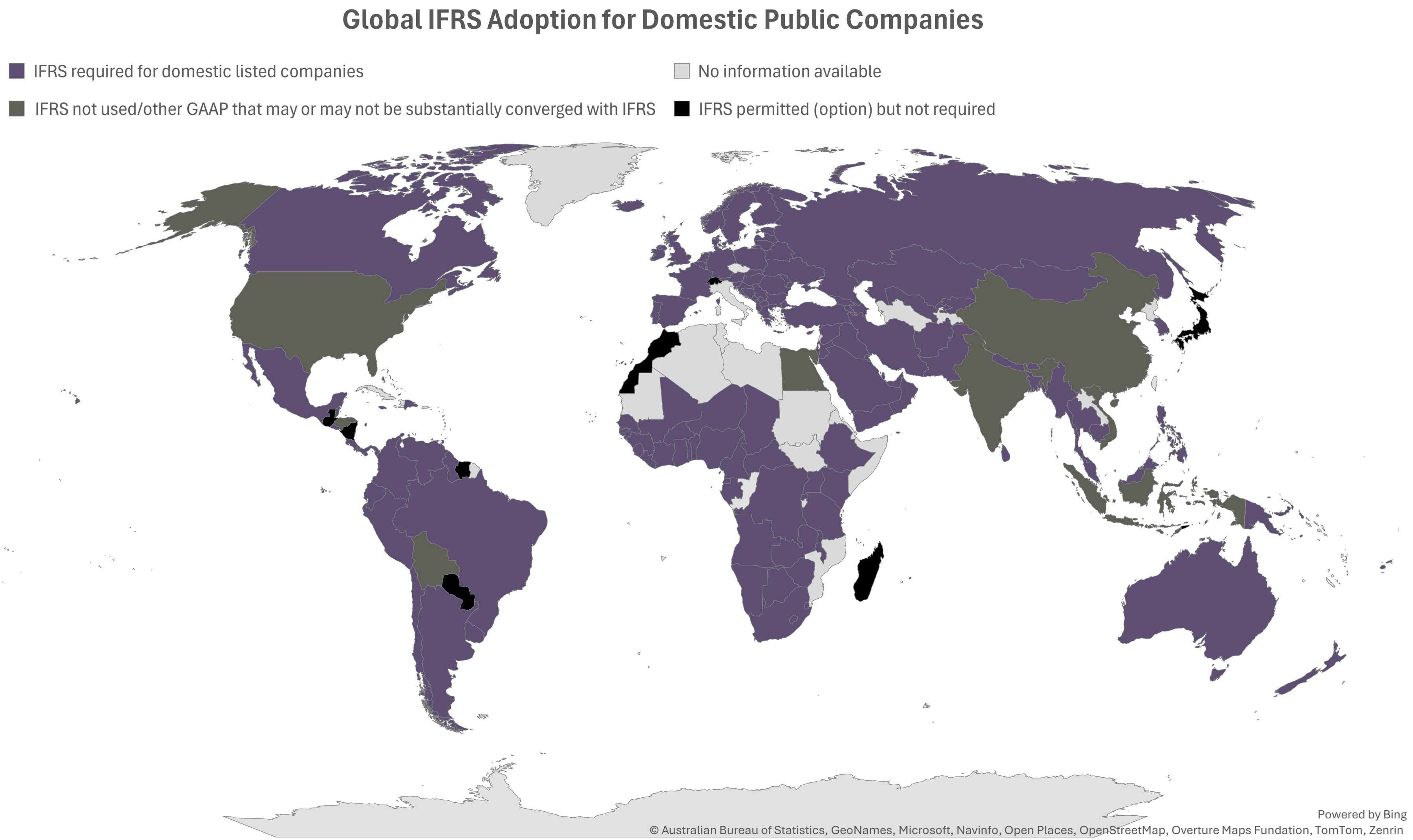
For-profit entities — reporting tiers and standards

Tier	For-profit entity criteria	Standards
Tier 1	• Has "public accountability" as defined in XRB A1; or • Is a "large" for-profit public sector entity with total expenses over $33 million.	**NZ IFRS**
Tier 2	• Has no "public accountability" as defined in XRB A1; and, • For a for-profit public sector entity, total expenses of $33 million or less (not "large" as defined in XRB A1).	**NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR)**

For consideration on the definition of public accountability refer to **Agenda Item 6.1d**.

Appendix 3a – Global IFRS adoption for domestic public companies – overview

Appendix 4a provides an overview of IFRS adoption by jurisdiction[3], and Appendix 4b provides supporting jurisdictional adoption data for domestic public companies. These appendices are included as contextual material only and do not determine the assessment of any reporting framework option.



[3] Source: IFRS Foundation, *Who uses IFRS Accounting Standards?* retrieved February 2026.

Appendix 3b – Global IFRS adoption[4] for domestic public companies: supporting data

The information relates to IFRS adoption for domestic publicly accountable entities and should not be read as applying to all entities or all for-profit reporting populations.

Region	Jurisdictions in the region	Jurisdictions that require IFRS Accounting Standards for all or most domestic publicly accountable entities	Jurisdictions that require IFRS Accounting Standards as % of total jurisdictions in the region	Jurisdictions that permit or require IFRS Accounting Standards for at least some (but not all or most) domestic publicly accountable entities	Jurisdictions that neither require nor permit IFRS Accounting Standards for any domestic publicly accountable entities
Europe	44	43	98%	1	0
Africa	40	37	92.5%	2	1
Middle East	13	12	92%	1	0
Asia-Oceania	35	28	80%	2	5
Americas	37	27	73%	6	3
Totals	**169**	**148**	**87%**	**12**	**9**
As % of 169 [5]	**100%**	**87%**	—	**8.3%**	**4.7%**

[4] Source: IFRS Foundation, *Who uses IFRS Accounting Standards?* retrieved 22 June 2026.
[5] Jurisdictions that require IFRS Accounting Standards as % of total jurisdictions in the region

Appendix 4 – Selected economies with similar population size to New Zealand

This appendix provides selected contextual comparisons with economies that have broadly similar population size to New Zealand. The selected economies are not exact comparators, and the information should be used as contextual reference material only.

Country	Population (Est.)**	Nominal GDP (USD)**	Primary economic activity/ies[6]	Primary framework (listed – consolidated)
New Zealand	5.32 million	$264 billion	Dairy, meat, forestry, horticulture, tourism	NZ IFRS (Full IFRS)
Finland*	5.64 million	$317 billion	Industrial machinery, forestry (paper/pulp), information and communications technology (**ICT**)	IFRS Accounting Standards as adopted by the EU
Denmark*	6.0 million	$462 billion	Pharmaceuticals, renewables (wind), maritime/shipping	IFRS Accounting Standards as adopted by the EU
Singapore	6.11 million	$604 billion	Financial services, electronics (semiconductors), refined petroleum	SFRS(I) (IFRS-equivalent)
Norway	5.61 million	$531 billion	Oil & Gas, seafood (salmon), shipping, hydropower	IFRS Accounting Standards as adopted by the EU via European Economic Area (EEA)
Ireland*	5.48 million	$721 billion	Pharmaceuticals, ICT and digital services, medical devices	IFRS Accounting Standards as adopted by the EU

[6] * EU jurisdictions: Finland, Denmark and Ireland are European Union member states. Listed companies in EU member states are required to prepare consolidated financial statements using IFRS Accounting Standards as adopted by the EU.
** Sources for population and GDP are based on World Bank country population total, and GDP (current US$) retrieved 16 July 2026. GDP figures are rounded to the nearest billion.
[6] Sources for economic activity: The primary economic activities listed are indicative only and are based on selected official government or national statistical publications describing each jurisdiction's economy.

- New Zealand: MPI Situation and Outlook for Primary Industries (SOPI)
- Finland: Valtiovarainministeriö (Ministry of Finance) Economic Survey
- Denmark: Danish Ministry of Economic Affairs Survey
- Singapore: Singapore Department of Statistics (SingStat) Economy Overview
- Norway: Statistics Norway (SSB) National Accounts
- Ireland: European Commission Economic Forecast for Ireland

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) – Tier 1 for-profit reporting framework review**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Inputs by:	Leana van Heerden
Through:	Nimash Bhikha; Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

Purpose

1. This paper assesses the current Tier 1 for-profit reporting framework as part of the Accounting Standards Framework (**ASF**) review. It focuses on entities required to apply Tier 1 reporting requirements.

2. The paper considers how the current Tier 1 framework operates and compares it with selected alternative reporting framework options. It identifies key differences, trade-offs and practical implications for Tier 1 entities, and assesses whether the current framework remains suitable for this population against the objectives of the ASF.

3. The analysis applies the broader ASF review methodology to the Tier 1 for-profit population and should be read alongside the For-profit sector overview paper, which addresses matters relevant across both Tier 1 and Tier 2 for-profit entities.

Recommendations

4. We recommend the Board:

   (a) **NOTE** the analysis of the current Tier 1 for-profit reporting framework;

   (b) **NOTE** the key differences, trade-offs and practical implications of the reporting framework options considered;

   (c) PROVIDE **FEEDBACK** on whether the analysis appropriately reflects the characteristics, reporting needs and public accountability considerations relevant to Tier 1 for-profit entities to inform the next stage of the ASF review and public discussion paper; and

   (d) Provide **FEEDBACK** on the proposed information and questions for stakeholders to be included in the public discussion paper on this topic (outlined in blue text).

Scope of this paper

5. This paper focuses on Tier 1 for-profit entities that are required to apply Tier 1 reporting requirements under the ASF.

6. Unless otherwise stated, references in this paper to **Tier 1** mean Tier 1 for-profit entities. The paper does not consider entities that voluntarily opt in to apply Tier 1 for-profit reporting

standards, broader questions about legislative reporting thresholds, or the criteria used to allocate entities to tiers.

7. The paper assesses reporting framework options and their suitability for Tier 1 for-profit entities. It does not assess detailed amendments to individual accounting standards or propose changes to specific recognition, measurement, presentation or disclosure requirements. Any such changes would be considered separately and would be subject to public consultation before the NZASB considered amendments to the existing framework.

Relationship with the for-profit overview paper

8. This paper should be read together with the For-profit sector overview paper, which provides the common context for the for-profit reporting framework, including the development of the current framework, the legislative pathway, International Financial Reporting Standards (**IFRS**) convergence, jurisdiction-specific wording and licensing arrangements, the common assessment criteria, and cross-cutting matters relevant to for-profit entities.

9. This Tier 1 paper does not repeat that common context, but rather it applies that context to the Tier 1 for-profit population. For this assessment, the relevant starting point is the current Tier 1 for-profit reporting framework in New Zealand and the established IFRS-based approach for entities with public accountability and large for-profit public sector entities.

Content

Section in the tier papers	Purpose of the section
Background and context for Tier 1 entities	Provides the tier-specific context needed to understand the reporting population, current requirements and framework options considered in the paper.
Legislative and regulatory environment	Explains the legislative and regulatory settings that determine which entities prepare GAAP-compliant financial statements and how tier eligibility applies.
Characteristics of Tier 1 for-profit entities	Describes the nature, scale and diversity of entities within the relevant tier, including features that may affect the framework assessment.
Information needs of users and preparer considerations	Considers the information needs of users and the practical, audit and cost considerations for preparers applying the framework
International practice, alignment and comparability considerations	Considers approaches used in other jurisdictions and how international alignment affects comparability, recognisability and sustainability in New Zealand.
Practical challenges with the current Tier 1 framework	Explains how the current framework operates in practice, including identified benefits, challenges and implementation issues.
Reporting framework options considered	Identifies the framework options considered for the relevant tier, including the current framework and alternative options within the scope of the tier paper.

Background and context for Tier 1 entities

Current tier 1 for-profit reporting framework

10. Under the current ASF, Tier 1 for-profit entities apply New Zealand International Financial Reporting Standards (**NZ IFRS**), including the full recognition, measurement, presentation and disclosure requirements.

11. The current tiered ASF moved away from the previous sector-neutral approach by establishing separate for-profit and public benefit entity (**PBE**) reporting frameworks, while retaining an IFRS-based framework for Tier 1 for-profit entities.

Role of Tier 1 for-profits within the ASF

12. Within the ASF, Tier 1 is the full reporting tier for for-profit entities which contains those entities with public accountability and those that are large for-profit public sector entities. Its role is to provide a framework for entities where public accountability, regulatory significance or scale supports the application of more comprehensive reporting requirements.

13. For listed or internationally active entities, comparable and useful information may assist global investors and other users in making informed investment decisions and may support the efficient and effective functioning of international capital markets. User needs, preparer considerations and the specific characteristics of Tier 1 entities are considered in later sections of this paper.

14. This background context is relevant because the current Tier 1 assessment starts from an established NZ IFRS framework aligned with IFRS Accounting Standards, rather than a domestic framework developed independently from international standards.

Why the Tier 1 framework is being reviewed now

15. 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.

16. The Tier 1 for-profit framework is being considered as part of the broader ASF review to test whether the reporting framework remains suitable for entities required to apply the Tier 1 requirements and continues to meet the objectives of the ASF.

17. Since the IFRS framework was initially established in New Zealand, the reporting environment for Tier 1 entities has continued to evolve. Relevant developments include:

    - New and amended IFRS Accounting Standards, including significant changes and growing complexities in areas such as financial instruments, revenue, leases and insurance contracts;
    - Recent international proportionality mechanisms such as IFRS 19 and revisions to IFRS for SMEs;
    - Increased focus on disclosure effectiveness, comparability and digital reporting; and
    - Different jurisdictional approaches to adopting, endorsing, modifying or supplementing international standards.

18. For Tier 1 entities, the relevant matters considered in this paper include ongoing changes to international reporting requirements, the cost and complexity of applying full NZ IFRS, international and trans-Tasman comparability, and whether the framework remains operable within New Zealand's reporting ecosystem. These matters are considered in the sections that follow and inform the assessment of the framework options.

Matters identified through previous review work and stakeholder engagement

19. Previous review work, including the 2019 post-implementation review of the ASF and the targeted ASF review, provides relevant context for considering the Tier 1 for-profit framework.

20. That work indicated that the current Tier 1 for-profit framework is generally understood within New Zealand's financial reporting environment. It also identified matters for further testing from a Tier 1 perspective, including the practical effect of ongoing changes to NZ IFRS, the cost and complexity of applying full reporting requirements, and the importance of maintaining comparability, credibility and international recognition for entities with public accountability.

21. These matters do not, of themselves, indicate that changes to the Tier 1 framework are required. Rather, they identify issues to be explored through the Tier 1 reporting framework assessment.

Legislative and regulatory environment

Legislative reporting obligations and ASF tier allocation

22. Legislation determines which entities must prepare generally accepted accounting practice (**GAAP**) compliant financial statements. Once that reporting obligation exists, the ASF determines the applicable sector, tier and reporting requirements. This distinction is explained in the For-profit sector overview paper and the Definition of public accountability paper; this section focuses on how it affects entities required to apply Tier 1 for-profit reporting requirements.

23. Under the current ASF, Tier 1 applies to for-profit entities with public accountability and large for-profit public sector entities with expenses above $33 million.

24. For the Tier 1 population considered in this paper, the relevant tier allocation factors are public accountability, higher public accountability under the Financial Markets Conduct Act 2013, and

large for-profit public sector entity status. This paper does not reassess those allocation criteria; the Definition of public accountability paper explains the public accountability and higher public accountability concepts in more detail.

Implications for Tier 1 framework assessment

25. The framework assessment considers how reporting framework options would operate for entities already required to report in Tier 1. It does not consider which entities should be required by legislation to prepare financial statements, legislative reporting thresholds, or entities that voluntarily opt in to Tier 1.

26. These legislative settings are relevant to the framework assessment because Tier 1 reporting requirements apply to entities that may operate in regulated environments, including financial markets, banking, insurance, managed investment schemes and other sectors where external users may rely on financial statements alongside regulatory reporting, market disclosures or prudential information. The users, preparer and ecosystem implications are considered in later sections.

Characteristics of Tier 1 for-profit entities

Common characteristics of Tier 1 entities

27. Tier 1 for-profit entities comprise entities with public accountability and large for-profit public sector entities that are required to apply Tier 1 reporting requirements.

28. The Tier 1 population commonly includes:
    - listed issuers;
    - registered banks;
    - licensed insurers;
    - managed investment schemes;
    - other entities with public accountability; and
    - large for-profit public sector entities that are required to apply Tier 1 reporting requirements under the ASF.

29. Some Tier 1 entities are included in Tier 1 because they meet the accounting definition of public accountability, while others are deemed to have higher public accountability under the Financial Markets Conduct Act 2013. This includes entities such as registered banks, licensed insurers and managed investment schemes, which may have fiduciary responsibilities to depositors, policyholders, investors, scheme members or beneficiaries.

30. This paper does not reassess the public accountability or higher public accountability criteria. Public accountability is discussed in more detail in the Definition of public accountability paper. Appendix 1 provides supporting information on selected Financial Markets Conduct (**FMC**) reporting entities that are required to report in Tier 1 because they have higher public accountability.

31. The Tier 1 population is characterised by entities that commonly have public accountability, external users who rely on GPFS, fiduciary or stewardship responsibilities, economic significance, and complex or regulated activities. These characteristics provide context for applying the framework-level assessment criteria in this paper, including the level of technical robustness, comparability, operability and ecosystem support required.

32. These matters are considered in more detail in the following sections on the legislative and regulatory environment, user and preparer considerations, international practice, alignment and comparability considerations, and practical implementation matters.

33. Population information in Appendix 2 is intended to provide an indicative view of the composition, relative scale and public reliance characteristics of the Tier 1 population, rather than quantify the size of New Zealand's capital markets or the economy as a whole.

Information needs of users and preparer considerations

Users of Tier 1 financial statements

34. The Conceptual Framework explains that general purpose financial reports (**GPFR**), which includes general purpose financial statements (**GPFS**), are primarily prepared for existing and potential investors, lenders and other creditors who rely on financial information to make decisions about providing resources to an entity.

35. In practice, primary users of financial statements prepared by Tier 1 entities may include existing and potential investors, lenders, analysts, regulators, depositors, policyholders, scheme members and other stakeholders. They may use those financial statements to assess financial performance, financial position, cash flows, risk exposures, stewardship and compliance with contractual or regulatory requirements.

36. Many primary users of Tier 1 financial statements are external to the entity and cannot obtain information from the entity directly and therefore depend upon GPFR to access decision-useful information. GPFR and GPFS therefore provide a common, independently prepared source of information about the entity, supporting informed decision-making by enabling users to assess the financial position, performance, cash flows and stewardship of resources.

37. While GPFR provide a common source of information, users may focus on different aspects of that information depending on the nature of the entity and their role.

    - Investors and analysts may focus on performance, valuation and capital allocation;
    - Lenders may focus on cash flow, security and covenant compliance;
    - Regulators may use financial statements alongside other regulatory reporting; and
    - Depositors, policyholders or scheme members may be interested in stewardship and the management of resources held or managed on their behalf.

Preparers and operational considerations

38. Preparers of Tier 1 financial statements are required to maintain reporting processes, systems and expertise sufficient to support compliance with full reporting requirements. Applying those requirements may involve significant judgement, documentation, audit support, implementation effort and ongoing costs. Relevant operational considerations include accounting expertise, auditability, interactions with regulatory reporting requirements, and the resources required to implement and maintain reporting requirements over time.

Implications for framework assessment

39. These user and preparer considerations are relevant to the reporting framework assessment because they indicate the type of information Tier 1 users need and the practical conditions under which preparers must provide it. They help assess whether the reporting framework options support decision-useful, transparent, comparable, credible, and technically robust

reporting, while remaining operable and proportionate for entities required to report under Tier 1.

International practice, alignment and comparability considerations

Reporting approaches used in other jurisdictions for publicly accountable entities

40. New Zealand's Tier 1 for-profit entities operate within an economy that is closely connected and reliant on global trade and investment markets. International practices therefore provide reference points for how other jurisdictions structure reporting requirements for entities with public accountability, listed entities and other entities that operate in capital markets or regulated sectors. This is relevant to the Tier 1 assessment because Tier 1 entities may have users who compare financial information across entities, sectors and jurisdictions.

41. International comparisons are useful reference points, but they are not directly determinative for New Zealand. Each jurisdiction has its own legislative, regulatory and capital market environment, and may apply different criteria for determining which entities use certain reporting frameworks.

42. Appendix 3 provides a high-level comparison of reporting frameworks used by New Zealand's top trading partners and selected G20 jurisdictions. The comparison indicates that IFRS-based frameworks are widely used for listed or publicly accountable entities, although some jurisdictions use other comprehensive frameworks, domestic endorsement processes, convergence approaches or local modifications. The appendix is intended to identify broad reporting approaches relevant to the Tier 1 assessment, rather than provide a comprehensive legal analysis of each jurisdiction.

Trans-Tasman alignment and comparability

43. International recognition and trans-Tasman alignment may be relevant for Tier 1 entities where financial information is used by investors, lenders, analysts, regulators, parent entities or other users across jurisdictions. As noted in XRB A1 paragraph BC16, harmonisation with Australia was considered a particularly important factor in establishing the for-profit tier framework, given Government policy and the number of for-profit entities with trans-Tasman reporting obligations. Alignment may support comparability, group reporting, consolidation processes, audit and assurance processes, workforce mobility, and the use of existing systems, processes and expertise.

44. Trans-Tasman alignment sits within the broader Australia–New Zealand economic and regulatory ties, including Closer Economic Relations agreement, the Single Economic Market agenda, and cooperation on business law coordination. These policy settings support regulatory coordination and reduced barriers for businesses operating across both jurisdictions and provide context for considering trans-Tasman comparability in the Tier 1 framework assessment.

45. Australia provides a specific trans-Tasman comparator because New Zealand's Tier 1 framework is currently aligned with Australia's IFRS-based framework for publicly accountable entities. However, the assessment should still consider whether New Zealand-specific factors, including public accountability, user information needs, preparer and auditor capability, regulatory settings and the objectives of the ASF, indicate that a different approach would be more appropriate for Tier 1 reporting.

46. Appendix 4 identifies entities listed on both the ASX and NZX, indicating that a subset of Tier 1 entities operates in a trans-Tasman market context. The Appendix also indicates that dual-listed entities are not confined to a single sector. This supports considering trans-Tasman

comparability across different types of listed Tier 1 entities, rather than as a matter relevant only to a narrow subset of issuers.

47. The international comparison provides useful reference points, but the assessment of options also needs to reflect New Zealand's own Tier 1 population, legislative settings and ASF objectives. As a relatively small jurisdiction, New Zealand's framework decisions may have implications for the wider reporting ecosystem, including preparer and auditor capability, analysts and valuation professionals, prudential regulators, capital market participants, education and professional training, software and systems, guidance, implementation support and workforce mobility.

Practical challenges with the current Tier 1 framework

48. The current Tier 1 framework of NZ IFRS allows New Zealand to draw on the IASB's international standard-setting process, but it also means practical challenges can arise where requirements are complex, change over time, or do not align fully with New Zealand-specific circumstances.

49. The main practical challenges with the current framework are:

    - **Ongoing implementation effort –** Tier 1 entities need to monitor and implement new and amended NZ IFRS requirements, including related changes to systems, processes, controls, accounting policies, disclosures, audit evidence and staff training.
    - **Technical judgement and application consistency –** NZ IFRS are principles based and are designed to require judgement in applying requirements to complex or evolving transactions, with application depending on preparer, auditor and regulator capability and assessments of their individual facts and circumstances.
    - **Disclosure quality –** NZ IFRS can result in extensive disclosures. The practical challenge is ensuring that disclosures remain entity-specific, material and understandable, rather than lengthy or generic.
    - **Limited domestic flexibility –** Maintaining convergence with IFRS Accounting Standards limits New Zealand's ability to simplify recognition and measurement requirements or tailor requirements for domestic circumstances without affecting IFRS alignment.

50. These challenges do not, of themselves, indicate that the current Tier 1 framework should change, but they provide context for assessing whether retaining NZ IFRS remains fit-for-purpose, proportionate and operable for entities required to apply Tier 1 reporting requirements.

Reporting framework options considered

51. This paper considers selected reporting framework options that could apply to entities required to report under Tier 1. The options have been selected to illustrate different framework-level approaches to Tier 1 reporting including continuing with the current NZ IFRS framework, considering another comprehensive international framework, or considering a framework with greater New Zealand-specific modification.

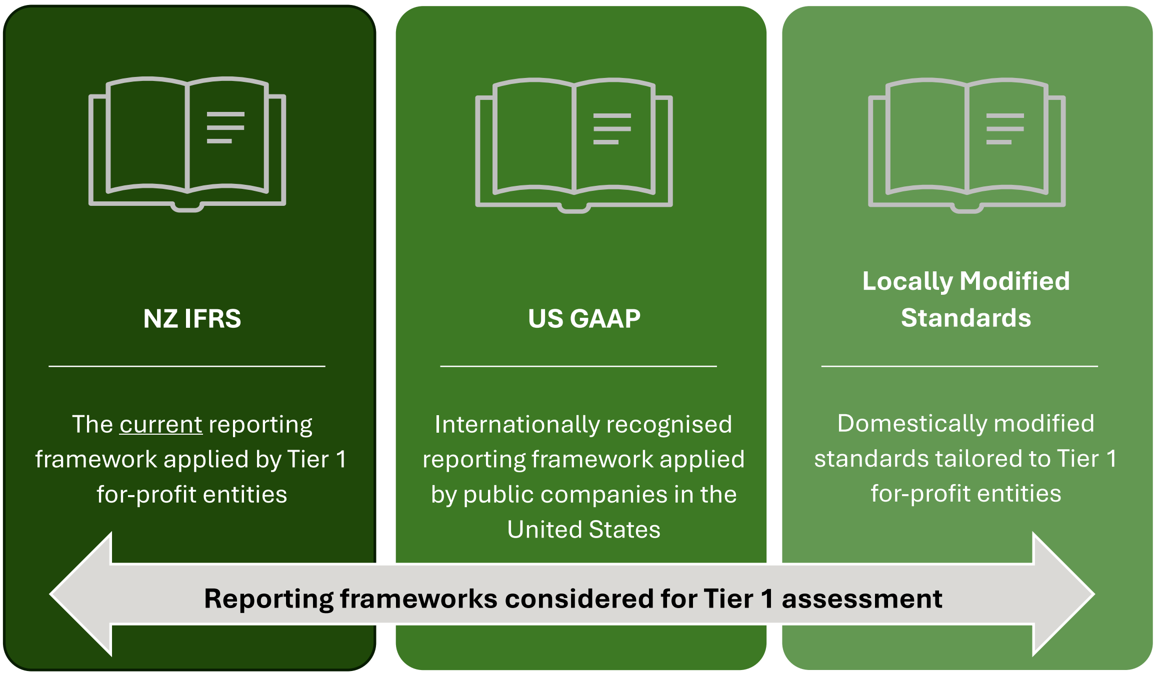
52. The selected options allow the assessment to consider different trade-offs, including international recognition, comparability, technical robustness, domestic flexibility, operability and implications for New Zealand's reporting ecosystem.

53. US GAAP has been included as a comparator because it represents one of the few comprehensive internationally recognised reporting frameworks used in a major capital market.

54. Many overseas jurisdictions use IFRS-based or IFRS-converged frameworks for listed or publicly accountable entities. Other jurisdiction-specific frameworks have not been included as standalone options because they are generally developed within another country's legal, regulatory, capital market and reporting environment.

55. However, elements of those frameworks may inform consideration of a locally modified New Zealand framework. Appendix 3 provides further information on the reporting approaches used in selected jurisdictions.

56. The reporting framework options selected for assessment are summarised in the visual below. Each framework option will be assessed against the established framework-level criteria as outlined in the For-profit sector overview paper.



57. Inclusion of a framework option in the assessment does not mean it is proposed to be carried forward for consultation. Rather, it reflects staff's consideration of whether any alternative frameworks may provide a suitable option to explore further in the public discussion paper.

Implementation considerations for options involving change

58. Any change from the current Tier 1 for-profit reporting framework would have implications for how the ASF operates for entities required to apply Tier 1 reporting requirements. The feasibility, timing and implementation pathway for any option involving change would require further consideration before any proposal could be developed.

59. This would include consideration of the extent to which any changes fall within the XRB's mandate, interactions with existing legislative and regulatory settings, whether consequential amendments to legislation, regulations or other instruments would be required, whether Ministerial approval would be required for particular changes, and appropriate transition arrangements for affected entities.

60. These implementation considerations have not been assessed in detail as part of the preliminary Tier 1 framework option analysis. They would form an important part of any future development work if the Board decides to explore an option involving change further.

Optionality and framework coherence considerations within Tier 1

61. A further design question considered as part of the assessment is whether Tier 1 for-profit entities should be permitted to use, or have financial statements accepted under, more than one reporting framework.

62. Optionality may provide flexibility for some Tier 1 entities and could reduce costs for some entities if they can report under another simpler framework. However, allowing more than one framework within Tier 1 may reduce comparability, affect global user understanding and increase audit, regulatory and capability requirements across the reporting ecosystem.

63. A consistent framework for all public accountable entities is a core principle which supports New Zealand's capital markets and capital flows, and trans-Tasman alignment. This is particularly significant for Tier 1 entities given the importance of internationally comparable reporting and the reliance of New Zealand financial markets on international capital flows. Allowing for optionality may introduce a level of scrutiny and scientism on the effectiveness of New Zealand's markets and the quality of New Zealand companies from global investors who expect, and are used to, consistent mandatory comprehensive reporting standards.

64. For these reasons, optionality is not assessed as a separate reporting framework option in this paper and is not proposed to be taken forward as a separate question in the public discussion paper at this stage for Tier 1 entities.

Analysis of framework options

The Tier 1 reporting framework assessment

65. The analysis that follows applies the framework-level assessment criteria outlined in the For-profit sector overview paper to NZ IFRS and the alternative reporting framework options considered in this paper. The criteria are applied considering the Tier 1 context discussed above, including legislative and regulatory settings, user and preparer needs, entity characteristics, international alignment and practical implementation considerations.

66. The criteria are intended to be applied collectively and do not have fixed weightings, with judgement to support a structured and balanced evaluation of each option. This section summarises the main observations from the assessment and assesses each reporting framework option, drawing on the Tier 1 considerations identified above. Appendix 8 provides the detailed criterion-by-criterion analysis based on our research and assessment.

67. We have considered and assessed three possible frameworks for Tier 1 for-profit entities as set out in Appendix 8. Below is the summary assessment across the framework-level assessment criteria used across the broader ASF review.

Tier 1 Options	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS	🟢	🔴	🟢	🟠	🟢	🟢	🟠
B. US GAAP	🟠	🔴	🟠	🔴	🔴	🔴	🟠
C. Locally modified standards	🟠	🟢	🔴	🟢	🔴	🔴	🟡

Legend:
🟢 Strong fit / low concern
🟠 Mixed fit / medium trade-off concerns
🔴 Significant trade-off concerns

Option A: IFRS

Reporting framework overview

68. As discussed earlier in the paper, IFRS is the current reporting framework issued in New Zealand and applied by Tier 1 for-profit entities. It is based on the IFRS Accounting Standards and provides the full recognition, measurement, presentation and disclosure requirements for for-profit entities with public accountability and large for-profit public sector entities. Further information about IFRS is provided in the IFRS factsheet in Appendix 5.

Implications for Tier 1 entities

69. Retaining IFRS would support continuity because it is already embedded within New Zealand's financial reporting environment. This is relevant for Tier 1 entities because of their public accountability, external user reliance and often complex or regulated activities.

70. IFRS provides a technically robust and internationally recognised framework. It supports comparability across reporting periods, entities and jurisdictions, including Trans-Tasman and broader IFRS-based comparability. This is important given the Government policy context for harmonisation with Australia and the number of for-profit entities with trans-Tasman reporting obligations, as noted in XRB A1 BC16. It is also relevant where Tier 1 financial statements are used for investment, lending, stewardship, regulatory and capital allocation decisions.

71. From a preparer and ecosystem perspective, IFRS is supported by existing systems, audit practices, guidance, education, training, regulatory processes and professional capability. Retaining IFRS would avoid transition disruption and the significant implementation costs that would arise from moving to a different framework.

72. The main trade-off is limited domestic flexibility within an IFRS-aligned framework, including the ongoing need to monitor and implement changes arising from international standard-setting.

Overall observations

73. Overall, retaining IFRS provides continuity with the current Tier 1 framework, maintains trans-Tasman alignment and remains supported by the reporting ecosystem already used by preparers, auditors, regulators, other users. The main trade-off is that New Zealand has limited ability to tailor IFRS requirements for domestic circumstances while maintaining IFRS alignment.

Option B: US GAAP

Reporting framework overview

74. US GAAP is a comprehensive reporting framework applied by public companies in the United States. It is supported by an extensive body of standards, guidance and implementation material and is widely used within the United States capital market. Further information about US GAAP is provided in the US GAAP factsheet in Appendix 6.

Implications for Tier 1 entities

75. Adopting US GAAP would represent a significant change from the current NZ IFRS-based framework. It may support comparability for users focused on the United States capital market but would reduce comparability with IFRS-based and IFRS-converged reporting jurisdictions, including Australia. These differences may affect how users interpret financial information, particularly where financial statements are used for investment, lending, stewardship, group reporting or regulatory purposes.

76. Adopting US GAAP would require changes to reporting systems, accounting policies, training, guidance, audit methodologies and regulatory processes and supporting capability. Preparers, auditors, regulators and users would also need to develop or access sufficient US GAAP capability to support consistent application in New Zealand.

Overall observations

77. Overall, US GAAP provides a useful non-IFRS comparator but adopting it would involve a major departure from New Zealand's current Tier 1 framework. It would have significant implications for comparability, capability, systems, audit and regulatory processes, and would provide limited opportunity for New Zealand-specific influence over standard-setting. This framework is still complex and therefore does not address the concern of complexity that exists in the current framework.

Option C: Locally modified standards

Reporting framework overview

78. The NZASB could explore locally developed standards across most of the ASF tiers as a possible option within the broader ASF review. We have considered the best approach and concluded that this would not mean developing standards from a blank page. Instead, New Zealand could use an established framework from another jurisdiction, such as United Kingdom, Australia, or another jurisdiction as a starting point and make targeted modifications where needed for the New Zealand context. Therefore, this will be referred to as locally modified standards.

79. Locally modified standards would involve adopting another reporting framework as a base and modifying that framework to reflect New Zealand-specific requirements, circumstances or policy objectives. The nature and extent of modifications could vary depending on the objectives of the framework and the underlying framework selected. Further information about locally modified standards indicative approach is provided in Appendix 7.

Implications for Tier 1 entities

80. A locally modified framework may provide greater flexibility to respond to New Zealand-specific considerations. Depending on the underlying framework and extent of modification, it may also provide more scope to simplify or adapt requirements for Tier 1 entities. The implications would depend on the design of the locally modified framework. Limited modifications to an existing international framework would have different effects from a more bespoke New Zealand framework.

81. If an IFRS-based framework were used as the source framework, copyright and licensing arrangements would need to be considered. Current IFRS licensing arrangements may constrain the extent to which New Zealand could selectively use, amend or combine IFRS Accounting Standards outside the permitted adoption model[1]. Other jurisdiction's standards may contain similar or more restrictive copyright limitations as well.

82. A significant 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 may affect whether locally modified standards are appropriate for those entities and the viability of the option.

[1] IFRS Foundation, Licensing of IFRS Standards for adoption and jurisdictional use. This page outlines the IFRS Foundations adoption and copyright arrangements for jurisdictions using IFRS Accounting Standards.

83. A locally modified framework may affect international and trans-Tasman comparability, recognisability, auditability, systems, guidance and standard-setting capacity. The extent of these effects would depend on the source framework selected, the nature and extent of any modifications, and how readily users, auditors and regulators could understand and apply the resulting framework.

Overall observations

84. Overall, locally modified standards may provide greater domestic flexibility, but would require significant standard-setting resources and technical capability to develop, govern and maintain a coherent Tier 1 framework. Any such approach would also need to be legally and practically feasible, including from a copyright and licensing perspective. This would have implications for comparability, capability, transition, ecosystem readiness and ongoing maintenance. We also note that maintaining globally competitive capital markets is relevant to the Tier 1 framework assessment, particularly because most other jurisdictions use globally recognised standards for publicly accountable entities, as shown in Appendix 3.

Summary observations and framework options for consultation

85. The assessment indicates that each reporting framework option could provide a basis for Tier 1 reporting, but each would involve different implications for entities required to apply Tier 1 reporting requirements. The public discussion paper is intended to seek open feedback on which framework option would better balance comparability, operability and user information needs for Tier 1 reporters.

86. The assessment identified different benefits and trade-offs across the three options.

- **IFRS** is considered to be a high-quality internationally credible framework which is already embedded in New Zealand's reporting ecosystem, supports comparability with IFRS-based jurisdictions including Australia, avoids transition disruption, and provides a comprehensive framework for entities required to apply Tier 1 reporting requirements.
- **US GAAP** was considered as a comprehensive non-IFRS comparator but is not proposed to be carried forward for the consultation due to it representing a significant departure from New Zealand's current IFRS-based framework, and would require substantial transition, capability, systems and audit and regulatory changes which would be in significant conflict with the ASF's purpose to be internationally aligned and locally relevant.
- **Locally modified standards** may provide greater domestic flexibility, but they would have significant implications for international and trans-Tasman comparability, maintenance, transition requirements and the wider reporting ecosystem for Tier 1 entities (depending upon the extent of recognition and measurement changes made). Given the importance of international capital flows, globally recognised standards and trans-Tasman alignment for Tier 1 entities, we do not propose to explore locally modified standards further for Tier 1 at this stage.

87. As such, the framework option proposed to be tested further with stakeholders in the public discussion paper for Tier 1 for-profit entities is retaining IFRS. Inclusion of this option is intended to seek stakeholder feedback on whether the current framework remains appropriate, including whether it continues to balance international comparability, trans-Tasman alignment, operability and user information needs for Tier 1 reporters.

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on the analysis presented, including whether it appropriately reflects the key characteristics, reporting needs, challenges, and public accountability considerations, as well as any other contextual information relevant to the Tier 1 for-profit entities?

Q2. What are the Board's **VIEWS** on the key trade-offs identified, including whether these appropriately capture the considerations relevant to assessing the Tier 1 for-profit framework?

Q3. Does the Board **IDENTIFY** any areas where further analysis or evidence is required to support the ASF discussion paper?

Extract of public discussion paper

88. We propose including the following blue extract in the public discussion paper to summarise the Tier 1 for-profit reporting framework analysis and test the proposed approach of retaining NZ IFRS with stakeholders, along with Appendices 5 and 8 below.

89. The paper will also summarise the considerations given to US GAAP as a comparator framework and to locally modified standards as an alternative framework option considered but not proposed to be explored further for Tier 1 at this stage.

Background for Tier 1 for-profit reporting

The ASF review considers whether International Financial Reporting Standards (**IFRS**) should continue to be the reporting framework for Tier 1 for-profit entities. Tier 1 for-profit entities include entities with public accountability and large for-profit public sector entities that are required to apply full reporting requirements under the ASF (as outlined in XRB A1 *Application of the Accounting Standards Framework*).

The review does not explore which entities are required by Acts of Parliament to prepare financial statements, as this is driven by the primary legislation itself and cannot be altered through changes to the ASF. The review also does not consider the underlying recognition, measurement, presentation, and disclosure requirements of the individual financial reporting standards. Instead, it focuses on whether the current Tier 1 reporting framework remains appropriate for entities already required to report in Tier 1 by Acts of Parliament.

Tier 1 entities commonly operate in regulated or capital market environments, hold or manage resources on behalf of others, or undertake complex transactions and have many external users who rely on general purpose financial statements (**GPFS**). Users may include investors, lenders, analysts, regulators, depositors, policyholders, scheme members and other stakeholders. Tier 1 preparers generally have greater reporting infrastructure than smaller entities, but applying full reporting requirements still involves judgement, systems capability, audit support, implementation effort and ongoing cost.

New Zealand's Tier 1 framework also operates in an international and trans-Tasman context. Many jurisdictions use IFRS-based frameworks for listed or publicly accountable entities (within additional local deeming criteria), and New Zealand's current approach supports comparability with IFRS-based jurisdictions, including Australia. This helps international investors make capital allocation decisions and is relevant where financial statements are used across jurisdictions for investment, lending, group reporting, audit, regulatory or other decision-making purposes.

Alternative frameworks explored for Tier 1 for-profit reporting

We considered the current IFRS framework alongside selected alternative framework options, including US GAAP and locally modified standards, to assess whether any alternative framework should be explored further for Tier 1 for-profit entities.

Through our analysis, we consider that retaining IFRS is the reporting framework option appropriate to test further with stakeholders for Tier 1 for-profit entities. US GAAP and locally modified standards were considered as alternative framework options but are not proposed to be explored further for Tier 1 at this stage. This reflects the importance of international comparability, trans-Tasman alignment, global recognition and ecosystem operability for Tier 1 entities.

Supporting material in this discussion paper includes the IFRS factsheet and the detailed Tier 1 framework options assessment.

US GAAP not considered viable for New Zealand

While the US GAAP framework was considered in our options assessment, we do not consider it to be a viable reporting framework for Tier 1 for-profit entities. Although US GAAP is a comprehensive, globally recognised framework designed for large listed corporate entities, and its more rules-based approach may support application in some areas, most Tier 1 for-profit entities and stakeholders in New Zealand are not set up to apply US GAAP reporting requirements.

We consider there would be significant implementation and transition challenges if US GAAP became the reporting framework for all Tier 1 entities which would outweigh and diminish any benefits created. We also note IFRS is used in more jurisdictions globally than US GAAP and much of New Zealand's international capital investment comes from a number of countries using IFRS reporting, rather than US GAAP reporting. As such, we do not consider US GAAP to be a viable option overall and is not proposed to be explored further.

Locally modified standards not proposed to be explored further for Tier 1 at this stage

While locally modified standards were considered in our options assessment, we do not propose to explore this approach further for Tier 1 for-profit entities at this stage. A locally modified framework could provide greater domestic flexibility, but it would also have implications for international comparability, trans-Tasman alignment, global recognition, auditability, standard-setting capacity, transition requirements and New Zealand's wider reporting ecosystem.

For Tier 1 entities, these implications are particularly important because many users rely on financial statements for investment, lending, stewardship, regulatory and capital allocation decisions. Maintaining alignment with globally recognised standards is also relevant to New Zealand's capital markets and to entities with trans-Tasman reporting obligations to ensure international users and stakeholders know that New Zealand entities are subject to the same level of reporting requirements as other jurisdictions entities. On balance, we consider that locally modified standards should not be explored further for Tier 1 at this stage, although relevant matters may continue to inform the broader ASF review.

Questions for stakeholders

- **Do you consider that NZ IFRS should be retained as the Tier 1 for-profit reporting framework? Why or why not?**
- **Are there any practical challenges arising from the current IFRS framework that should be considered for Tier 1 for-profit entities, users, preparers, auditors, regulators or New Zealand's reporting ecosystem?**
- **Do you have any other feedback on the Tier 1 for-profit reporting framework assessment, including whether there are matters relating to alternative frameworks that should inform a future stage of the ASF review?**

Questions for the Board

Q4. Does the Board have any **FEEDBACK** on the proposed text and questions for the public discussion paper, including the reasons for excluding US GAAP and locally modified standards, proposing to only include NZ IFRS as a consultation option for Tier 1 for-profit entities?

Appendix contents

The appendices provide supporting material for the analysis in the main paper and are for the Board's consideration. Appendices 5 and 8 (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
Appendix 1	FMC reporting entities — HLPA comparison	Summarises how FMC reporting entity status interacts with higher public accountability designations for selected entity types.	Board paper only
Appendix 2	Indicative composition of the Tier 1 for-profit population	Summarises the main types of entities within the Tier 1 for-profit population and the public accountability, higher public accountability or size factors that bring them into Tier 1.	Board paper only
Appendix 3	Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions	Provides a high-level comparison of reporting frameworks used in selected jurisdictions and their relevance to the Tier 1 framework assessment.	Board paper only
Appendix 4	Entities listed across both NZX and ASX – dual listings	Lists entities dual listed on the ASX and NZX to support the Tier 1 population analysis and trans-Tasman comparability context.	Board paper only
Appendix 5	IFRS factsheet	Provides supporting information about NZ IFRS as the current Tier 1 for-profit reporting framework.	Include in Discussion Paper
Appendix 6	US GAAP factsheet	Provides supporting information about US GAAP as a comprehensive non-IFRS comparator framework.	Board paper only
Appendix 7	Locally modified standards indicative approach	Provides supporting information about a locally modified standards approach and its framework-level implications.	Board paper only
Appendix 8	Tier 1 For-Profit Entities: Framework Options Analysis	Provides the detailed assessment of each Tier 1 reporting framework option against the framework-level evaluation criteria.	Include in Discussion Paper

Appendix 1 – FMC reporting entities — HLPA comparison

Entity Type	FMC Reporting Entity	FMC Reporting Entity with HLPA[2]	Note
Issuer of regulated offer – equity securities only, <50 shareholders	✗	✗	*FMCA s452 carve-out*
Issuer of regulated offer – equity securities, ≥50 shareholders	✓	✓	
Issuer of regulated offer – debt securities	✓	✓	
Licensed Supervisor	✓	✗	
Manager of registered schemes — Manager level financial statements	✓	✗	*Not HLPA unless triggered otherwise*[3]
Registered schemes (incl. KiwiSaver schemes) — Scheme level financial statements	✓	✓	*HLPA applies at scheme level only – s461K(1)(b)*
Listed Issuer	✓	✓	
Operators of licensed markets	✓	✗	
Conduit issuer / recipient of money from conduit issuer	✓	✗	
Registered bank	✓	✓	
Licensed insurer	✓	✓	
Credit Union	✓	✓	
Building Society	✓	✓	
FMC reporting entity designated by notice from FMA	✓	**Depends**	

[2] Not all FMC reporting entities carry Higher Level Public Accountability obligations — the distinction depends on entity type and statutory triggers under the Financial Markets Conduct Act.
[3] For a manager of a registered scheme, higher public accountability applies only to the scheme or fund financial statements. The manager entity itself does not have HLPA unless it independently meets another statutory HLPA trigger, such as being a listed issuer or an issuer of regulated products in its own right.

Appendix 2 – Indicative composition of the Tier 1 for-profit population

Tier 1 For-Profit Population	Public accountability trigger	Size Metric	Size (approx.) [1,4]	Number of Entities (approx.) [4]
A. Public accountability – accounting definition				
NZX listed equity issuers (NZ-domiciled)[5]	Securities traded in public market	Market Capitalisation	$189.7b	~172
NZX listed debt issuers	Debt instruments traded in public market	Total Listed Debt	$54.6b	~46
NZX-ASX Dual listed entities (Australian entities) [2]	Securities traded in public market	Market Capitalisation	Included in NZSX market capitalisation	~53
Registered banks and licensed insurers	Fiduciary responsibility to a broad group of primary users	Total Assets	Material; sector-wide assets	~108
B. Public accountability – deemed under FMCA HLPA				
Registered Managed Investment Schemes (inc. KiwiSaver)	Statutory FMC reporting entity with HLPA designation	Assets Under Management (AUM)	$364.4b	Registered schemes vary; ~31 KiwiSaver providers
Other entities designated HLPA[3] (not otherwise captured above)	Statutory designation under s 461K / s 461L FMCA	Entity specific	Immaterial relative to above	Small number
C. Large for-profit public sector entities				
Large Government entities	Public sector control & size threshold	Operating expenses/total assets	>$33m expenses threshold	Small number

[1] *Size metrics differ by category to reflect the nature of public accountability and are not intended to be aggregated. Market capitalisation, AUM, and total assets are presented to illustrate relative economic scale and public reliance rather than to measure the size of the New Zealand equity market.*

[2] *Dual-listed Australian entities are included for completeness but are not indicative of the size of New Zealand capital markets, as their market capitalisation also reflects their global operations.*

[3] *Other entities designated HLPA exclude entities already captured under the accounting public accountability limb.*

[4] *Population estimates were compiled by XRB staff using NZX issuer data (July 2026), the Reserve Bank of New Zealand register of licensed banks and licensed insurers, the Financial Markets Authority register of registered managed investment schemes, and other publicly available legislative and regulatory registers. The figures are intended to illustrate the relative size of the Tier 1 population and are not intended to represent an exhaustive or an exact static count.*

[5] *Figure includes listed equity issuers and listed funds.*

Appendix 3 – Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions

Country	Economic trade value (NZD billion)	Primary framework for listed entities or publicly accountable entities	Broad comparison with the NZ Tier 1 framework
New Zealand	Reference jurisdiction	NZ IFRS	Baseline for comparison.
New Zealand top 10 trading partners*			
China	$43.02 total trade Exports $23.08; imports $19.94 Rank 1	Chinese Accounting Standards for Business Enterprises (CAS/ASBE)	Relevant as New Zealand's largest trading partner and a major non-IFRS jurisdiction. CAS/ASBE are substantially converged with IFRS Standards, and China has committed to adopt IFRS Standards for reporting by at least some domestic companies although there is no timetable for completion of the process. Chinese companies representing more than 30 per cent of the total market capitalisation of the domestic market produce IFRS-compliant financial statements as a result of their dual listings in Hong Kong and other international markets.
Australia	$36.40 total trade Exports $18.58; imports $17.82 Rank 2	Australian Accounting Standards (AASB) - IFRS based	Highly relevant as a close trans-Tasman comparator. Australia's IFRS-based framework supports comparability with NZ IFRS for publicly accountable entities, although domestic reporting tiers are not identical.

United States of America	$30.54 total trade Exports $17.71; imports $12.83 Rank 3	United States Generally Accepted Accounting Principles (US GAAP)	Relevant as a major trading partner and the main example of a comprehensive non-IFRS framework. US GAAP would represent a significant departure from NZ IFRS and from trans-Tasman alignment
Singapore	$11.00 total trade Exports $2.67; imports $8.33 Rank 4	Singapore Financial Reporting Standards International (SFRS(I))	Relevant as a significant trading partner that applies SFRS for listed entities, which are substantially converged with IFRS Standards. This supports international comparability with NZ IFRS, while domestic reporting tiers differ.
Japan	$9.38 total trade Exports $4.76; imports $4.62 Rank 5	Japanese Generally Accepted Accounting Principles (JGAAP); IFRS permitted; US GAAP	Relevant as a significant trading partner with multiple accepted frameworks. Japan illustrates a different approach from New Zealand, through optionality. .
Republic of Korea	$9.31 total trade Exports $3.26; imports $6.05 Rank 6	Korean International Financial Reporting Standards (K-IFRS)	Relevant as a significant trading partner that applies IFRS-based standards for listed entities. This supports broad comparability with NZ IFRS for Tier 1-style entities
United Kingdom	$7.73 total trade Exports $4.31; imports $3.42 Rank 7	United Kingdom-adopted IFRS (UK-IFRS)	Relevant as a significant trading partner and IFRS-based comparator. UK-adopted IFRS supports comparability for listed entities, although the wider UK reporting framework differs from New Zealand’s tier structure.

Germany	$3.83 imports No export top 10 value shown Rank 8	EU-adopted IFRS for listed group consolidated financial statements	Relevant as an EU/G20 comparator and import partner. EU-adopted IFRS supports comparability for listed group reporting, while domestic statutory reporting differs from New Zealand.
Thailand	$3.16 imports No export top 10 value shown Rank 9	Thai Financial Reporting Standards (TFRS) for publicly accountable entities	Relevant as an import partner. Thailand illustrates an IFRS-based approach for publicly accountable entities, with separate requirements for other entities
Malaysia	$2.76 imports No export top 10 value shown Rank 10	Malaysian Financial Reporting Standards (MFRS), fully aligned with IFRS for entities within scope	Relevant as an import partner and IFRS-aligned comparator. Malaysia's framework supports comparability for entities within scope, while private-entity reporting differs from NZ Tier 1.
Selected G20 jurisdictions**			
Taiwan	$2.32 exports No import top 10 value shown Rank 11	Taiwan-IFRS for listed entities	Relevant as an export partner. Taiwan illustrates an IFRS-based listed-entity framework, with domestic adoption and endorsement features that differ from NZ IFRS.
Argentina	Not shown in top 10 trade data	IFRS Accounting Standards for listed entities	Different approach – IFRS used for listed entities, with local requirements for many non-listed entities.

Brazil	Not shown in top 10 trade data	Brazilian accounting standards converged with IFRS for listed entities	Different approach – IFRS-converged framework with local requirements for non-listed entities.
Canada	$2.15 exports No import top 10 value shown Rank 12	IFRS Accounting Standards for publicly accountable enterprises	Relevant as a G20 jurisdiction and export partner. Canada's use of IFRS for publicly accountable enterprises is broadly comparable with NZ IFRS for Tier 1-style entities.
France	Not shown in top 10 trade data	EU-adopted IFRS for listed group consolidated financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
India	$2.09 exports No import top 10 value shown Rank 13	Indian Accounting Standards (Ind AS), which are IFRS-converged	Relevant as a G20 jurisdiction and export partner. Ind AS is IFRS-converged but locally modified, illustrating potential implications of using an IFRS-based framework with domestic modifications.
Indonesia	Not shown in top 10 trade data	Indonesian Financial Accounting Standards - Pernyataan Standar Akuntansi Keuangan (PSAK)	Different approach – multiple frameworks applied based on entity size and type.
Italy	Not shown in top 10 trade data	EU-adopted IFRS for listed group consolidated financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
Mexico	Not shown in top 10 trade data	IFRS Accounting Standards for listed entities, except some regulated financial and insurance entities	Different approach – IFRS for listed entities, with domestic standards for many non-listed entities.

Russia	Not shown in top 10 trade data	IFRS Accounting Standards for listed companies, financial institutions and certain consolidated reporting	Different approach – IFRS-based reporting for some entities, with domestic standards for many standalone and non-listed entity accounts.
Saudi Arabia	Not shown in top 10 trade data	IFRS Accounting Standards as endorsed in Saudi Arabia for publicly accountable entities	Different approach – endorsed IFRS for publicly accountable entities and endorsed IFRS for SMEs for eligible non-listed entities.
South Africa	Not shown in top 10 trade data	IFRS Accounting Standards for listed entities and other entities within scope	Different approach – IFRS for entities within scope, with IFRS for SMEs available for eligible entities.
Turkey	Not shown in top 10 trade data	Turkish Financial Reporting Standards, aligned with IFRS for public interest entities and other entities within scope	Different approach – IFRS-aligned standards for public interest entities, with local frameworks for other entities.
European Union	Not shown in top 10 trade data	EU-adopted IFRS for consolidated financial statements of listed groups	Different approach – IFRS for listed group reporting, with national frameworks for many non-listed entities.

* Source: Stats NZ New Zealand international trade dashboard to year ending 31 March 2026. Date of source retrieval 22 June 2026. New Zealand's top trading partners are identified based on total trade in goods and services for the year ended 31 March 2026. This is derived by considering the top export destinations and top import origins. Countries appearing in both export and import lists are treated as significant trading partners due to their two-way trade flows. Additional countries are included based on their prominence within either exports or imports to complete the selected top 10 group. The order of presentation is for comparison purposes and should not be read as a precise ranking of total trade flows.
** G20 rows are included to illustrate broad international practice. The table is intended to provide a high-level comparison of selected approaches and is not a comprehensive legal analysis of each jurisdiction.

*** The G20 comprises 19 countries together with the European Union, and, since 2023, the African Union. For the purposes of this table, the G20 country rows include the 19 individual country members and the European Union, excluding countries already listed as New Zealand top 10 trading partners.

Appendix 4 – Entities listed across both NZX and ASX – dual listings

Dual listed entities ASX/NZX (as at January 2026)		
1. Australian Foundation Investment Company Limited	2. ikeGPS Group Limited	3. Summerset Group Holdings Limited
4. AFT Pharmaceuticals Limited	5. Kathmandu Holdings Limited	6. Turners Automotive Group Limited
7. Auckland International Airport Limited	8. Meridian Energy Limited	9. Smartpay Holdings Limited
10. Air New Zealand Limited	11. Minerals Exploration Limited	12. The a2 Milk Company Limited
13. ANZ Group Holdings Limited	14. Mercury NZ Limited	15. Truscreen Group Limited
16. Black Pearl Group Limited	17. Michael Hill International Limited	18. Trade Window Holdings Limited
19. Briscoe Group Australasia Limited	20. Move Logistics Group Limited	21. Tower Limited
22. Contact Energy Limited	23. Metro Performance Glass Limited	24. Tourism Holdings Limited
25. Chorus Limited	26. New Zealand King Salmon Investments Limited	27. Vista Group International Limited
28. Channel Infrastructure NZ Limited	29. NZME Limited	30. Ventia Services Group Limited
31. Downer EDI Limited	32. Oceania Healthcare Limited	33. Vulcan Steel Limited
34. EBOS Group Limited	35. Pacific Edge Limited	36. Westpac Banking Corporation
37. EROAD Limited	38. Restaurant Brands New Zealand Limited	39. Winton Land Limited
40. Fletcher Building Limited	41. Ryman Healthcare Limited	42. Spark New Zealand Limited
43. Fisher & Paykel Healthcare Corporation Limited	44. SkyCity Entertainment Group Limited	45. Santana Minerals Limited
46. Freightways Group Limited	47. Serko Limited	48. Synlait Milk Limited
49. Genesis Energy Limited	50. Sky Network Television Limited	51. Heartland Group Holdings Limited
52. Gentrack Group Limited	53. Infratil Limited	

Source: NZX and ASX listed issuer data, as at July 2026. The list identifies entities with securities listed on both NZX and ASX and is intended to support the trans-Tasman comparability analysis. It may not represent a complete or static count of all cross-listed entities, as listings can change over time.

Appendix 5 – IFRS factsheet

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.

IFRS

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.

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

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 issued to clarify the application of IFRS 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.

Appendix 6 – US GAAP factsheet

United States Generally Accepted Accounting Principles (US GAAP)

Fact Sheet

This fact sheet provides a high-level overview of United States Generally Accepted Accounting Principles to support discussion as part of the Accounting Standards Framework review.

Overview of the US GAAP framework

At a glance
US GAAP provides a highly detailed and enforceable financial reporting framework for entities accessing US capital markets — but at the cost of complexity, rigid rules, and high compliance and implementation effort.

What US GAAP is

The United States Generally Accepted Accounting Principles (**US GAAP**) is a financial reporting framework used mainly in the United States to prepare financial statements. US GAAP is developed and maintained by the Financial Accounting Standards Board (**FASB**), which operates under the oversight of the Financial Accounting Foundation (**FAF**).

US GAAP is designed to support consistency, transparency and comparability in financial reporting, particularly for entities participating in US capital markets. The framework includes detailed accounting, presentation and disclosure requirements across many industries and transaction types.

Who US GAAP is mainly designed for

US GAAP is primarily designed for for-profit entities operating within the United States financial reporting environment, including companies listed on US stock exchanges and privately owned companies. The framework is designed to provide useful financial information to investors, lenders, regulators and other users of financial statements.

US GAAP as an international benchmark

US GAAP is one of the world's most established and widely recognised financial reporting frameworks and is strongly associated with the United States capital markets. It is commonly used by entities listed in the United States and has historically been influential in the development of financial reporting practices internationally.

Although IFRS Accounting Standards are more widely adopted globally, US GAAP remains an important international benchmark because of the size and significance of the United States capital markets. The framework is often used in international investment analysis, multinational group reporting, and comparisons between major international accounting frameworks.

Key characteristics of the US GAAP reporting framework

Key characteristics of the US GAAP reporting framework include:

- Detailed accounting requirements across many industries and transaction types.
- Extensive disclosure requirements to provide required information on balances and risks.
- Strong US investor and capital market focus to support accountability and decision-making.
- Use of both historical cost and fair value measurement approaches depending upon the item's nature.
- Close interaction with regulator reporting requirements for public companies.

How US GAAP works in practice

US GAAP is organised within the FASB's Accounting Standards Codification (**ASC**), which groups accounting requirements by topic into a single codified framework. When accounting requirements are added or changed, FASB issues Accounting Standards Updates (**ASUs**), which amend the ASC. In developing or updating requirements, FASB follows a formal due process that includes stakeholder engagement, public consultation and Exposure Drafts.

High-level comparison of US GAAP and IFRS reporting frameworks

Area	US GAAP	IFRS Accounting Standards
Approach	Often considered to be more detailed and prescriptive rules-based to minimise litigation risks	Often considered to be more principles-based to allow for faithful representation of transactions
International use	Strongly associated with functioning of US capital markets	Widely adopted internationally across other jurisdictional capital markets
Industry-specific guidance	Generally more extensive requirements for certain industries	Generally less industry-specific and focused on broad principles
Global comparability	Important within US markets and multinational reporting	Designed to support international comparability

Illustrative approaches for measurement:

Asset/liability	US GAAP	IFRS Accounting Standards
Property, plant and equipment (e.g. land and buildings)	Generally measured using a historical cost model with depreciation and impairment requirements. Revaluation generally not permitted.	Generally measured using either a historical cost model or a revaluation model. Impairment assessments required in certain situations.
Inventories	Generally measured at the lower of cost or market/value. LIFO is permitted and inventory write-down reversals are generally prohibited.	Measured at the lower of cost and net realisable value. LIFO is prohibited and reversals of inventory write-downs may be permitted.
Intangible assets	Generally measured at historical cost less amortisation and impairment. Revaluation generally not permitted.	Generally measured at historical cost less amortisation and impairment. Revaluation permitted only where an active market exists.
Goodwill	Generally not amortised and tested annually for impairment. Some private entities may elect to amortise instead.	Amortisation is prohibited and tests for impairment must be performed at least annually.
Financial Instruments	Measured at amortised cost or fair value depending on classification. Certain assets are subject to expected credit loss requirements.	Measured using amortised cost, fair value through OCI or profit/loss depending on classification. Certain assets are subject to expected credit loss requirements.
Leases (For lessees)	For most leases, entities recognise a right-of-use asset and lease liability. Retains distinction between finance and operating leases.	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 7 – 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 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.

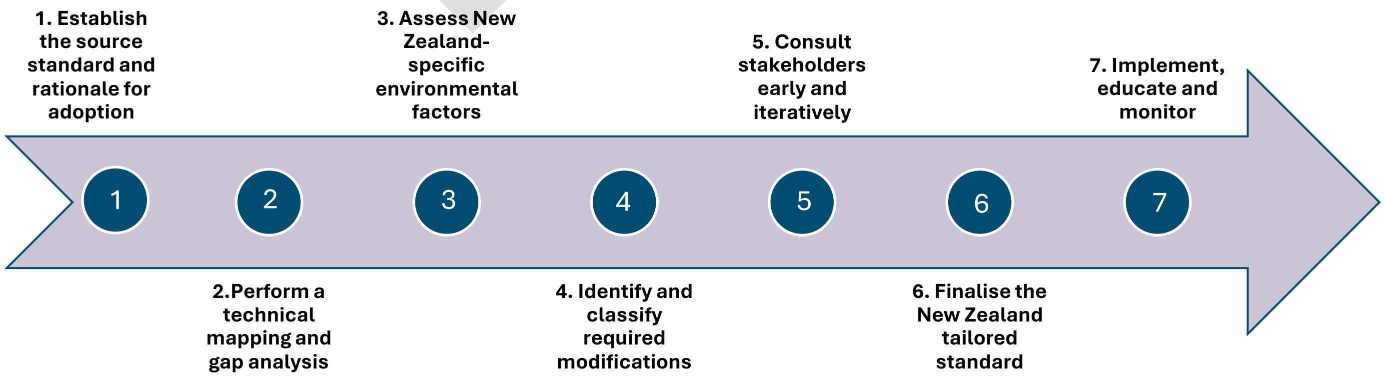
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

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 copyright 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 copyright, 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, Financial Markets Conduct Act, Charities Act, Crown Entities Act.
- **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:** Investors, donors, funders, 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 decision-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 NZ-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 –*** *Does the requirements create any conflicts with other NZ reporting frameworks (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*** *– Does 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 for-profit capital markets make sense for New Zealand entities to report?*

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 NZASB'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 in 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.

Appendix 8 – Tier 1 For-Profit Entities: Framework Options Analysis

Note:
Refer to the overview slides for this paper on the next page which contains the detailed framework option analysis.

Tier 1 for-profit framework analysis against key criteria

For-profit sector

Overview

This paper assesses the current Tier 1 for-profit reporting framework (NZ IFRS) as part of the ASF review, and should be read alongside the For-profit sector overview paper.

Understanding Tier 1 for-profit entities

Tier 1 for-profit entities are:

- **Economically significant;**
- **Publicly accountable organisations**
- **Their activities expose a broad range of stakeholders to risk.**

Strong expectations for **high-quality, transparent, and internationally aligned** financial reporting to support market confidence and public trust.

A for profit entity **That has *public accountability******	**Or**	**A *large for-profit public sector** *entity* with total expenses > $33mil**
Examples include • Listed equities and funds (~180 instruments on NZX Main Board) • Listed debt issuers (~144 instruments on the NZX Debt Market) • Registered banks (~27 banks) • Licensed insurers (~ 84 insurers) • Registered managed investment schemes etc.		Small number of entities in this category

Information needs of users and preparers

General purpose financial statements (**GPFS**) are the primary way external users access decision-useful information about Tier 1 entities. The reporting framework needs to meet those user needs while remaining operable and proportionate for preparers.

Who the users are

- Investors, lenders, analysts, regulators, depositors, policyholders and scheme members.
- Many are external and cannot obtain information directly, so they rely on general purpose financial statements.

What they use it for

- Investors and analysts focus on performance, valuation and capital allocation; lenders on cash flow, security and covenants.
- Regulators, depositors and policyholders focus on oversight and stewardship of resources.

Preparer considerations

- Maintaining the systems, processes and expertise to apply full reporting requirements.
- Significant judgement, documentation, audit support, implementation effort and ongoing cost.

Why it matters

- Frames the information Tier 1 users need and the conditions preparers work under.
- Helps assess whether options are decision-useful, comparable and credible while remaining operable.

Key challenges with the current Tier 1 framework

The current Tier 1 framework lets New Zealand draw on the IASB's international standard-setting process. However, practical challenges can arise where requirements are complex, change over time, or do not fully align with New Zealand-specific circumstances. These challenges do not, of themselves, indicate that Tier 1 should change, but they provide context for assessing whether retaining NZ IFRS remains fit-for-purpose, proportionate and operable.

1. Ongoing implementation effort

- Entities must continually monitor and implement new and amended IFRS requirements.
- This drives related changes to systems, processes, controls, policies, disclosures, audit evidence and training.

2. Technical judgement and application consistency

- IFRS Accounting Standards are principles-based and require judgement for complex or evolving transactions.
- Consistent application depends on preparer, auditor and regulator capability and their assessment of the facts.

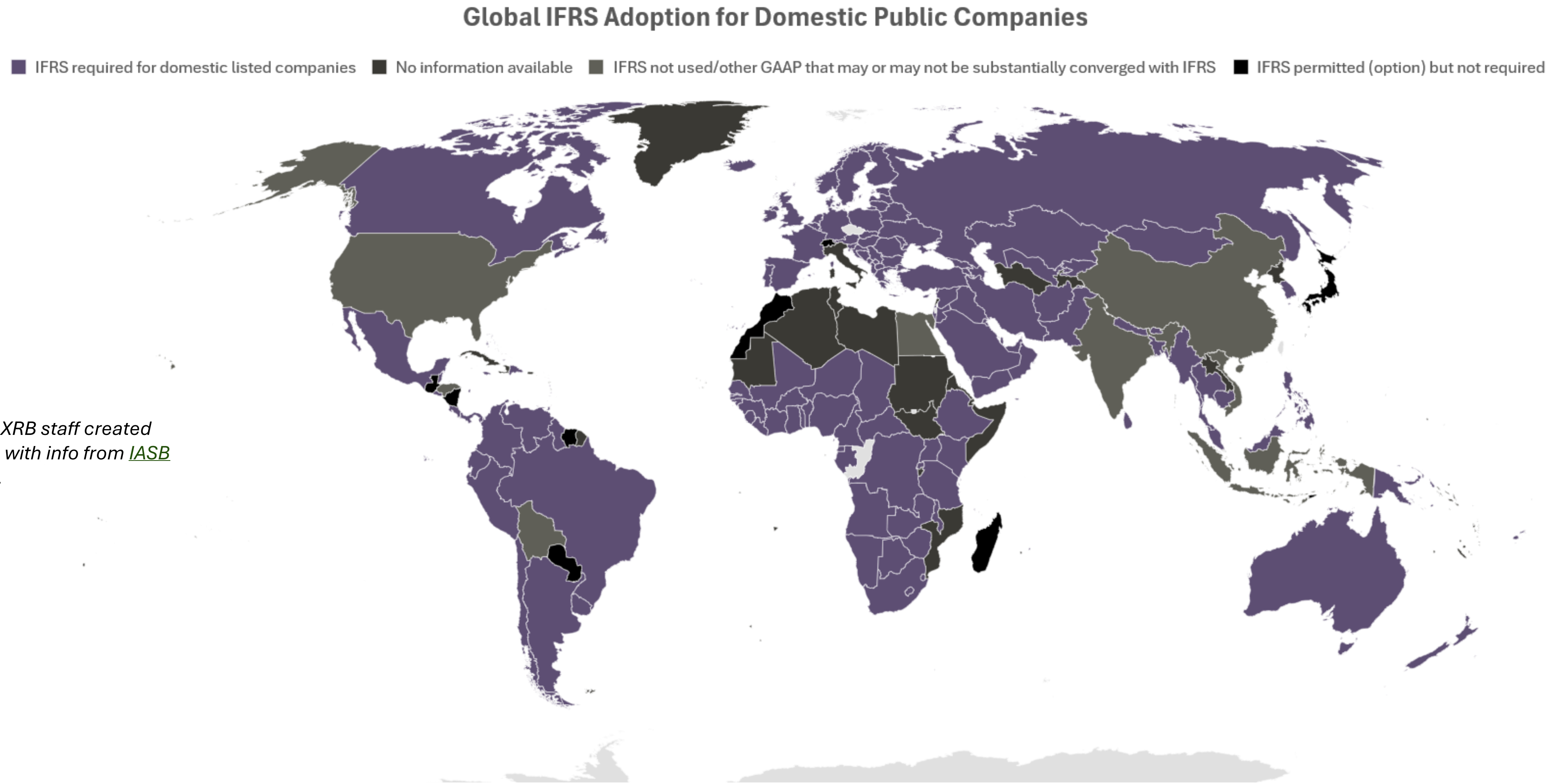
3. Disclosure quality

- IFRS can result in extensive disclosures.
- The challenge is keeping them entity-specific, material and understandable, rather than lengthy or generic.

4. Limited domestic flexibility

- Maintaining convergence with IFRS limits scope to simplify recognition and measurement.
- Requirements cannot easily be tailored to domestic circumstances without affecting IFRS alignment.

Global IFRS adoption overview



Source: XRB staff created the map with info from [IASB website](#).

New Zealand’s top 10 trading partners

Countries	Requirements for domestic public companies
China	China’s national standards which are substantially converged with IFRS. (> 30 % of the total market cap = IFRS-compliant financial statements. China has committed to adopt IFRS).
Australia	IFRS
United States of America	US GAAP
Singapore	Singapore Financial Reporting Standards which are aligned with IFRS
Japan	IFRS, Japanese GAAP and US GAAP permitted (>40% of the total market cap = IFRS compliant financial statements).
South Korea	IFRS
United Kingdom	IFRS
Germany	IFRS
Thailand	IFRS
Malaysia	IFRS

Source: Stats NZ and IASB website.

Out of the top 10 trading partners > *7 require IFRS, 1 is substantially converged, 1 permits IFRS and only 1 has a different framework* (US GAAP - considered as an alternative option below).

Foundation and copyright of IFRS Accounting Standards

IFRS Foundation's mission statement - *Our mission is to develop high-quality IFRS Standards that bring transparency, accountability and efficiency to capital markets around the world.*

Our work serves the public interest by fostering trust, growth and long-term financial stability in the global economy.

Compliance with IFRS provides users with confidence that:

a. **recognition and measurement are consistent**, and

b. **comparability exists across jurisdictions**.

To protect this global comparability, the IFRS Foundation:

- does **not permit partial adoption** of recognition and measurement requirements;
- **requires full compliance** if IFRS is stated.

New Zealand's follows this same global principle. In order to state compliance with IFRS, all standards needs to be adopted.

Optionality and framework coherence

A further design question is whether Tier 1 for-profit entities should be permitted to use, or have financial statements accepted under, more than one reporting framework.

The question

- Whether to allow more than one reporting framework within Tier 1, rather than a single consistent framework.

Potential benefit

- Flexibility for some entities and possible cost savings if they could report under a simpler framework.

Trade-offs

- May reduce comparability and affect global user understanding.
- Increases audit, regulatory and capability requirements across the reporting ecosystem.

Conclusion

- A consistent framework for all publicly accountable entities supports capital markets and trans-Tasman alignment.
- Optionality is not assessed as a separate option and is not proposed for the discussion paper at this stage.

Tier 1 For-profit reporting framework options analysis

Tier 1 for-profit reporting framework options:

A: NZ IFRS - currently in use

B: US GAAP

C: Locally modified standards

Tier 1 For-profit reporting framework options explored

Process followed:

- Staff prepared the options analysis of the alternative frameworks that were considered viable to this tier.
- Each viable framework option was evaluated by considering its pros and cons and assessing it against a set of key criteria (outlined below).
- A point to highlight is that we discussed whether IFRS for SMEs should be considered as an option for Tier 1 for-profit entities. IFRS for SMEs is designed for entities without public accountability and does not seek to meet the information needs of users in public capital markets. Accordingly, IFRS for SMEs has not been included as an option for Tier 1 but remains under consideration for Tier 2 entities.
- We also prepared a separate paper considering public accountability and the impact of locally modified standards.

Key criteria	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
This means:	Technical fitness; coherent suite capable of handling complex transactions developed with user needs in mind (preparer and user focus)	Simplification options (addressing preparers' concern about complexity)	Internationally aligned Internationally recognised and comparable - including Australia	Ability to make local modifications and/or influence internationally to enable local relevance	Ecosystem and workforce considerations (the market)	Cost of change (transition costs for preparer and ecosystem)	Ongoing costs incl maintenance the standards (i.e. how often are changes expected) (preparer focus)

Tier 1 For-profit entities framework options assessment

Summary assessment across key criteria

Tier 1 Options	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS	🟢	🔴	🟢	🟠	🟢	🟢	🟠
B. US GAAP	🟠	🔴	🟠	🔴	🔴	🔴	🟠
C. Locally modified standards	🟠	🟢	🔴	🟢	🔴	🔴	🟡

🟢 Strong fit / low concern
🟠 Mixed fit / medium trade-off concerns
🔴 Significant trade-off concerns

Tier 1 Option	Recommendation	Key drivers of the assessment		
A. IFRS	Recommended	1. Internationally credible	2. Harmonised with Aus	3. Copyright agreements limits simplification
B. US GAAP	Not recommended	1. Only used primarily in one jurisdiction	2. High transition costs	3. Loss of Aus harmonisation
C. Locally modified standards	Not proposed for DP	1. Simplification possible	2. Loss of international credibility	3. High transition and maintenance costs

Appendix 2 - Legislative requirements to apply XRB accounting standards

Primary legislation determines 'who' is in scope and required to apply the ASF and XRB accounting standards. Below are the legislative requirements to apply XRB accounting standards and the relevant parameters (this list is not exhaustive):

Primary legislation	Legislative requirements
Financial Reporting Act 2013 (FRA) - Section 9,12 & 45	• Obligation to comply with GAAP when another Act requires financial reporting – this section ensures that where the Companies Act or FMC Act (applicable to Tier 1 entities) requires financial statements, they must follow XRB standards (Section 9) • XRB mandate to issue financial reporting standards (Section 12) • Defines 'large' (over \$66m assets or \$33m revenue, for last two accounting period), and, defines 'large overseas company' (over \$22m assets or \$11m revenue for last 2 accounting periods) (Section 45)
Companies Act(Co Act) 1993 - Sections 200-202	The following types of companies are required to comply with GAAP: (a) large company; (b) public entity; (c) large overseas company; (d) company with 10 or more shareholders unless opted out of compliance with the provision; and (e) company with fewer than 10 shareholders but opted into compliance with the provision.
Other legislation requiring GAAP compliant financial reporting	We note that several other Acts also impose GAAP reporting obligations, for example – Building Societies Act 1965, Energy Companies Act 1992, Incorporated Societies Act 2022, Māori Community Development Act 1962, etc. (this list is not exhaustive).

Tier 1 For-profit

Detail supporting the options assessment

Option A - IFRS analysis

Pros	• International comparability to unlock access to capital markets • Harmonisation with Australia • Ability to provide NZ views and influence • Credibility and investor confidence • High-quality, principles-based framework • Extensive guidance and support • Future-proofing • Established domestic workforce capability and global talent pool • Globally informed standard-setting process • Access to IFRS-ready accounting systems • No transition costs and market disruptions
Cons	• Possible concerns about high cost per entity and complexity of compliance. • Potential overload of disclosures. • Limited tailoring to NZ circumstances • Copyright restrictions – mandatory full-suite adoption (recognition and measurement requirements must be followed) • Resource strain during change

Option A - IFRS

Criteria	Analysis
Technical fitness	Fulsome framework with 43 NZ IFRS standards providing clear principles for accounting of most complex transactions. Development of these standards takes into account global users and best practices.
Simplification	Simplification option limited: under existing IFRS copyright agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned. Reduced disclosures could remain an option.
International alignment	Internationally recognised - used in 161 jurisdictions (required or permitted for publicly accountable entities). This is a well established framework recognised internationally. Australia: aligned
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.
Ecosystem	Well-established IFRS focused ecosystem supported by workforce, auditors and technology. Ongoing training through accounting firms, standard setters and educational institution. Access to global talent pool ensures work force mobility and sustained capability.
Transition costs	No change is required, so no additional costs would arise. Existing software and systems already support the current IFRS-aligned environment.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes.

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

Option B – US GAAP

Pros	• Alignment with the world's largest capital market • More prescriptive (rule-based) standards with detailed guidance • Reduced judgement risk for preparers
Cons	• Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment • Loss of international comparability outside the US • Not developed for NZ capital market entities • Equal or more ongoing compliance costs resulting from prescriptive accounting requirements • New Zealand is unable to influence developments • Loss of harmonisation with Aus

Option B – US GAAP

Criteria	Analysis
Technical fitness	Over 90 Accounting Standard Codifications that are rule based and capable of dealing with most complex transactions.
Simplification	Simplification option: expected to have similar limitations like IFRS
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
Local relevance	New Zealand would have no ability to influence the standard-setting process within the US, this means there will be no local inputs into the development of these standards.
Ecosystem	US GAAP adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	Significant cost and changes will be required. Existing software and systems implemented do not support the US GAAP environment. XRB and wider NZ workforce does not currently have sufficient US GAAP experience to support adoption.
Ongoing costs	With transactions evolving, accounting standards evolve which results in regular changes.

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

Option C – Locally modified NZ Standards

Pros	• Full control over standard-setting • Tailoring to NZ circumstances • 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 C – Locally modified NZ Standards

Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards that is capable of dealing with most complex transactions. Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Simplification	Simplification: there are other jurisdictional frameworks we can leverage from, and tailor requirements to reduce complexity in the standards.
International alignment	Would not be recognised internationally and unlikely to be used outside New Zealand, limiting comparability and potentially restricting access to global capital markets. Australia: not aligned
Local relevance	Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	Significant cost and changes will be required. Existing software and systems implemented do not support the bespoke standard. XRB and wider NZ workforce capability implications due to risk unintended consequences.
Ongoing costs	Changes to locally modified standards can be contained. There is a risk that evolving arrangements are not timeously addressed in standard setting.

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

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	6 August 2026
Subject:	**Accounting Standards Framework review – Tier 2 for-profit reporting framework review**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Through:	Nimash Bhikha; Michelle Lombaard
☒ **Action Required**	☐ **For Information Purposes Only**

Purpose

1. This paper assesses the current Tier 2 for-profit reporting framework as part of the Accounting Standards Framework (**ASF**) review. It focuses on entities required to apply Tier 2 reporting requirements.

2. This paper considers how the current Tier 2 for-profit reporting framework operates and compares it with selected alternative reporting framework options. It identifies key differences, trade-offs and practical implications for mandated Tier 2 for-profit entities and assesses whether the current framework remains suitable for this population against the objectives of the ASF.

3. The analysis applies the broader ASF review methodology to the Tier 2 for-profit population and should be read alongside the For-profit sector overview paper, which addresses matters relevant across both Tier 1 and Tier 2 for-profit entities.

Recommendations

4. We recommend the Board:

   (a) **NOTE** the analysis of the current Tier 2 for-profit reporting framework;

   (b) **NOTE** the key differences, trade-offs and practical implications of the reporting framework options considered;

   (c) Provide **FEEDBACK** on whether the analysis appropriately reflects the characteristics, reporting needs and public accountability considerations relevant to Tier 2 for-profit entities to inform the next stage of the ASF review and public discussion paper; and

   (d) Provide **FEEDBACK** on the proposed information and questions for stakeholders to be included in the public discussion paper on this topic (outlined in blue text).

Scope of this paper

5. This paper focuses on Tier 2 for-profit entities that are required to apply the Tier 2 reporting requirements under the ASF.

6. Unless otherwise stated, references in this paper to **Tier 2** mean Tier 2 for-profit entities that are required to prepare generally accepted accounting practice (**GAAP**)-compliant financial statements by legislation.

7. This paper does not consider broader questions relating to legislative reporting thresholds or the criteria used to allocate entities to tiers. If stakeholder feedback from this review indicates concerns about which entities are required to prepare GAAP-compliant financial statements, or about the legislative thresholds used to determine reporting obligations, that feedback will be provided to other parties (MBIE) for their consideration on the relevant legislative policy settings. Considerations relating to entities that voluntarily opt in to apply Tier 2 reporting requirements are also addressed separately in the Entities that voluntarily apply Tier 2 reporting requirements paper.

8. This paper assesses reporting framework options and their suitability for mandated Tier 2 for-profit entities. It does not assess detailed amendments to individual accounting standards or propose changes to specific recognition, measurement, presentation or disclosure requirements. Any such changes would be considered separately and would be subject to public consultation before the NZASB considered amendments to the existing framework.

Relationship with the for-profit overview paper

9. This paper should be read together with the For-profit sector overview paper, which provides the common context for the for-profit reporting framework, including the development of the current framework, the legislative pathway, International Financial Reporting Standards (**IFRS**) convergence, jurisdiction-specific wording and licensing arrangements, the common assessment criteria, and cross-cutting matters relevant to for-profit entities.

10. This Tier 2 paper does not repeat that common context. Instead, it applies that context to the mandated Tier 2 for-profit population. For this assessment, the relevant starting point is the current Tier 2 for-profit reporting framework in New Zealand and the established IFRS-based approach for entities with no public accountability and, those that are not large for-profit public sector entities.

Content

Section in the tier papers	Purpose of the section
Background and context for Tier 2 entities	Provides the tier-specific context needed to understand the reporting population, current requirements and framework options considered in the paper.
Legislative and regulatory environment	Explains the legislative and regulatory settings that determine which entities prepare GAAP-compliant financial statements and how tier eligibility applies.
Characteristics of Tier 2 for-profit entities	Describes the nature, scale and diversity of entities within the relevant tier, including features that may affect the framework assessment.
Information needs of users and preparer considerations	Considers the information needs of users and the practical, audit and cost considerations for preparers applying the framework

Background and context for Tier 2 entities

Current tier 2 for-profit reporting framework

11. The current tiered ASF moved away from the previous sector-neutral approach by establishing separate for-profit and public benefit entity (**PBE**) reporting frameworks, while retaining an IFRS-based framework for Tier 2 for-profit entities.

12. Under the current ASF, Tier 2 for-profit entities apply New Zealand International Financial Reporting Standards with reduced disclosure requirements **(NZ IFRS RDR)**, including full recognition, measurement and presentation requirements, but with reduced disclosure requirements as specified by the External Reporting Board (**XRB**).

13. As a result, Tier 2 for-profit entities generally report the same accounting outcomes as Tier 1 for-profit entities, with differences primarily relating to the volume and detail of disclosures within the financial statements.

Role of Tier 2 for-profits within the ASF

14. Within the ASF, Tier 2 is the proportionate reporting tier for for-profit entities that do not have public accountability and are not large for-profit public sector entities. Its role is to provide a framework for entities where the absence of public accountability supports the application of reduced reporting requirements, while still maintaining a basis for credible, comparable and useful general purpose financial reporting, given these entities are still economically significant to the NZ financial reporting ecosystem.

15. For non-publicly accountable entities, comparable and useful information may assist lenders, owners, parent entities, regulators and other users in making informed decisions, including lending, stewardship, compliance, group reporting and other resource allocation decisions. The general-purpose financial statements for these entities are written for this range of users.

16. This background context is relevant because the current Tier 2 assessment starts from an established NZ IFRS-aligned framework that retains NZ IFRS recognition and measurement requirements while providing reduced disclosures, rather than a separate simplified recognition and measurement framework developed independently from international standards.

How the Tier 2 for-profit framework was developed

17. The current Tier 2 for-profit reporting framework was established in 2015 as part of New Zealand's move from differential reporting to a tiered approach for entities required to prepare GAAP-compliant financial statements. For Tier 2 for-profit entities, this involved developing a proportionate reporting tier that retained NZ IFRS recognition and measurement requirements, with reporting relief provided mainly through reduced disclosures.

18. This history is relevant as the current design of the Tier 2 reporting framework provides the starting point for considering whether the current framework remains suitable for the Tier 2 reporting entities.

Why the Tier 2 framework is being reviewed now

19. The Tier 2 for-profit framework review is being considered as part of the broader ASF review to test whether the Tier 2 for-profit framework continues to meet the objectives of the ASF for entities that are legally required to apply it. The review does not start from an assumption that the current framework should change.

20. Since the Tier 2 framework was established in 2015, the reporting environment for Tier 2 entities has continued to evolve. Relevant developments include:

    - Growth in the size, scale and complexity of some entities required to report under Tier 2, including entities with external financing, cross-border operations or more complex transactions;
    - Increasing prevalence or significance of Tier 2 entities operating within wider corporate groups, including groups with Tier 1 parents or overseas ownership, where comparability, consolidation and group reporting may be relevant;
    - New and amended IFRS Accounting Standards, including significant changes and growing complexities in areas such as financial instruments, revenue, leases and insurance contracts, where those changes are developed primarily for entities with public accountability; and
    - Recent international proportionality mechanisms, including IFRS 19 and revisions to IFRS for SMEs, and different jurisdictional approaches to reporting by entities without public accountability.

21. For the Tier 2 entities, the relevant matters considered in this paper include diversity of the Tier 2 population, the available evidence based and population visibility limitations, the cost and complexity of applying full NZ IFRS recognition and measurement requirements, the extent to which disclosure-only relief remains proportionate, group reporting and movement between tiers, international and trans-Tasman comparability, and whether the framework remains operable within New Zealand's reporting ecosystem.

Matters identified through previous review work and stakeholder engagement

22. Previous review work, including the 2019 post-implementation review of the ASF and the targeted ASF review, provides relevant context for considering the Tier 2 for-profit framework.

23. That work indicated that the current Tier 2 for-profit framework is generally workable for many entities required to apply it. It also identified matters for further testing from a Tier 2 perspective, including the practical effect of ongoing changes to full NZ IFRS recognition and measurement requirements, the extent to which disclosure-only relief remains proportionate, the diversity of the Tier 2 population, and whether the framework remains operable for entities with different levels of complexity, accounting capability and user needs.

24. These matters do not, of themselves, indicate that changes to the Tier 2 framework are required. Rather, they identify issues to be explored through the Tier 2 reporting framework assessment.

Legislative and regulatory environment

Legislative framework requiring GAAP-compliant financial reporting

25. Legislation determines which entities must prepare generally accepted accounting practice (**GAAP**) compliant financial statements. Once that reporting obligation exists, the ASF determines the applicable sector, tier and reporting requirements. This distinction is explained in the For-profit sector overview paper and the Definition of public accountability paper.

26. Under the current ASF, Tier 2 applies to for-profit entities that are required to report, do not have public accountability, and are not large for-profit public sector entities required to apply Tier 1 reporting requirements. For the Tier 2 population considered in this paper, the relevant tier allocation factor is the absence of public accountability.

27. Entities required to report that have public accountability apply Tier 1, while entities without public accountability may apply Tier 2 unless, they are large for-profit public sector entities required to apply Tier 1. This paper does not reassess those allocation criteria and the Definition of public accountability paper explains the public accountability concept in more detail.

Implications for Tier 2 framework assessment

28. Understanding the characteristics of mandated Tier 2 for-profit entities provides a foundation for assessing the suitability of reporting framework options. However, the population cannot be precisely identified or quantified because there is no central register that captures all entities required to apply Tier 2 standards, and many Tier 2 entities are not required to file financial statements with the Companies Office unless they are a Financial Market Conduct (**FMC**) reporting entities or otherwise subject to filing requirements.

29. The assessment therefore relies on the available evidence base, including consultations, stakeholder engagement, observed practice, standard-setting activities and regulatory or assurance-related channels. While these sources do not provide a complete view of all Tier 2 entities, they provide a reasonable basis for identifying relevant characteristics and assessing reporting framework options.

30. We acknowledge the fundamental limitation that complete data on the Tier 2 population is not available and that the considerations made may not work for all Tier 2 entities.

Characteristics of Tier 2 entities

Common characteristics of Tier 2 entities

31. Tier 2 for-profit entities comprise for-profit entities that are required to prepare GAAP-compliant financial statements and are allocated to Tier 2 under the ASF because they do not have public accountability and are not large for-profit public sector entities required to apply Tier 1 reporting requirements.

32. For contextual purposes, the broader population of entities applying Tier 2 may include:
    - large private companies;
    - large overseas companies;
    - companies with significant employees;
    - companies with 10 or more shareholders, unless they have opted out where permitted;
    - companies that have opted in to prepare GAAP-compliant financial statements;
    - subsidiaries or other entities within wider corporate groups;
    - entities with external financing or other contractual reporting obligations; and
    - entities captured by sector-specific or other statutory reporting requirements.

33. Some entities are included because they meet statutory reporting requirements, while others may prepare GAAP-compliant financial statements because of shareholder, overseas company or sector-specific requirements. Appendix 2a of the For-profit sector overview paper provides supporting information on selected legislative provisions that may require for-profit entities to prepare GAAP-compliant financial statements. This paper does not assess the appropriateness of legislative reporting thresholds or allocation criteria, and the ASF review assessment focuses on Tier 2 entities which are legally required to follow Tier 2 standards. Considerations relating to entities that voluntarily opt in to apply Tier 2 reporting requirements are also addressed separately in the Entities that voluntarily apply Tier 2 reporting requirements paper.

34. The Tier 2 population is characterised by entities that do not have public accountability but may nevertheless have external users who rely on general purpose financial statements (**GPFS**), are economically significant, have group reporting needs, stewardship or compliance responsibilities, and have varying levels of complexity and reporting capability.

35. These characteristics indicate that Tier 2 entities are not a uniform population – some may have relatively straightforward transactions and limited accounting capability, while others may operate in wider groups, have external financing, or have users who compare financial information across jurisdictions. User needs, preparer capability and reporting expectations may therefore differ across the Tier 2 population.

36. These matters are considered in more detail in the following sections on user and preparer considerations, international practice, alignment and comparability considerations, and practical implementation matters.

37. Population information in Appendix 2a of the For-profit sector overview paper is intended to illustrate the nature and range of legislative pathways that may bring mandated entities into the Tier 2 reporting, rather than quantify the total size of the Tier 2 population.

38. Although the Tier 2 population cannot be precisely quantified, the legislative settings indicate that some entities required to report under Tier 2 may be economically significant. For example, the Financial Reporting Act 2013 defines “large” entities by reference to asset and revenue

thresholds, and the Companies Act 1993 requires certain large companies, large overseas companies and companies with 10 or more shareholders to prepare GAAP-compliant financial statements. The absence of public accountability therefore does not necessarily mean that a Tier 2 entity is economically insignificant or that its financial statements have limited users.

Information needs of users and preparers

Users of Tier 2 financial statements

39. The Conceptual Framework explains that general purpose financial reports (**GPFR**), which includes general purpose financial statements (**GPFS**), are primarily prepared for existing and potential investors, lenders and other creditors who rely on financial information to make decisions about providing resources to an entity.

40. In practice, primary users of financial statements prepared by Tier 2 entities may include existing and potential investors (where appropriate), lenders, analysts, regulators, depositors, policyholders, scheme members and other stakeholders. They may use those financial statements to assess financial performance, financial position, cash flows, risk exposures, stewardship and compliance with contractual or regulatory requirements.

41. Some Tier 2 entities may be closely held or part of wider groups, meaning some users may also obtain information through owner reporting, lender reporting, management reporting or other contractual reporting channels. In those circumstances, GPFS may be one source of information rather than the primary source. However, some other users may be external to the entity and may not have access to detailed internal management information. For these users, GPFS can provide a common basis for understanding the entity's reported financial information and assessing stewardship and accountability.

42. The extent to which users rely on GPFS may differ across the Tier 2 population and different users may focus on different aspects of that information depending on the nature of the entity, their relationship with the entity and the decisions they are making.
    - Lenders may focus on financial position, cash flows, security and covenant compliance;
    - Shareholders or owners may focus on stewardship, performance, distributions and compliance with shareholder reporting requirements;
    - Parent entities may focus on information that is consistent with group reporting and consolidation requirements;
    - Regulators may use financial statements alongside other regulatory or compliance information; and
    - Prospective investors, suppliers or other stakeholders may use financial statements to assess financial performance, financial position, risk and the capacity of the entity to meet obligations.

43. Stakeholder feedback through the discussion paper and targeted outreach will be important in testing whether the identified user needs remain consistent with current practice. Feedback from users of Tier 2 GPFS – including lenders, tax authorities, regulators and other stakeholders, will also help identify which financial information is most useful for the decisions they make.

Preparers and operational considerations

44. Preparers of Tier 2 financial statements may have mixed or limited reporting infrastructures, systems and specialist expertise compared to those entities in Tier 1. However, applying Tier 2 reporting requirements may still involve significant judgement, system capability,

documentation, audit support, implementation effort and ongoing costs, as the proportionality mechanism is reduced disclosure requirements only. Relevant operational considerations include accounting expertise, auditability, system capability, group reporting interactions, regulatory reporting interactions and the resources required to implement and maintain reporting requirements over time.

45. Requirements that are difficult to understand, apply or audit may increase compliance costs, particularly for Tier 2 entities with limited internal capability or less complex transactions. Compliance costs may include management time, finance resources, auditor effort and advisory support, and are relevant when assessing whether reporting requirements are proportionate to the benefits obtained by users of financial statements.

Implications for framework assessment

46. These user and preparer considerations are relevant to the reporting framework assessment because they indicate the type of information Tier 2 users need and the practical conditions under which preparers must provide it. They help assess whether the reporting framework options support decision-useful, transparent, comparable, credible and technically robust reporting, while remaining understandable, operable and coherent with Tier 1 reporting, and proportionate for entities required to report under Tier 2.

International practice, alignment and comparability considerations

Reporting approaches used in other jurisdictions for non-publicly accountable entities

47. New Zealand's Tier 2 for-profit entities operate within an economy that is closely connected with global trade, investment and trans-Tasman business activity. International practices therefore provide reference points for how other jurisdictions structure reporting requirements for entities that are not listed, do not have public accountability, or are subject to proportionate reporting requirements. This is relevant to the Tier 2 assessment because some Tier 2 entities may have users who compare financial information across entities, groups and jurisdictions (albeit to a lesser degree than users of Tier 1 financial statements).

48. International comparisons are useful reference points, but they are not directly determinative for New Zealand. Each jurisdiction has its own legislative, regulatory and economic environment, and may apply different criteria for determining which entities use particular reporting frameworks. As a result, approaches used for non-listed or non-publicly accountable entities overseas are not directly equivalent to New Zealand's mandated Tier 2 population.

49. Appendix 1 provides a high-level comparison of reporting frameworks used by New Zealand's top trading partners and selected G20 jurisdictions. The comparison indicates that there is no single international model for reporting by for-profit entities without public accountability. Approaches include IFRS-based frameworks with reduced disclosures, separate domestic or private-company frameworks, IFRS for SMEs, IFRS-converged frameworks and local modifications. The appendix is intended to identify broad reporting approaches relevant to the Tier 2 assessment, rather than provide a comprehensive legal analysis of each jurisdiction.

Trans-Tasman alignment and comparability

50. International recognition and trans-Tasman alignment may be relevant for some Tier 2 entities where financial information is used by lenders, parent entities, investors, regulators or other users across jurisdictions. As noted in XRB A1 paragraph BC16, harmonisation with Australia was considered a particularly important factor in establishing the for-profit tier framework, given Government policy and the number of for-profit entities with trans-Tasman reporting obligations (as many NZ Tier 2 entities may consolidate into a large Australian group). Alignment may

support comparability, group reporting, consolidation processes, audit and assurance processes, workforce mobility, and the use of existing systems, processes and expertise. However, for some Tier 2 entities that have no interests overseas, this may not be a factor at all.

51. Trans-Tasman alignment sits within the broader Australia–New Zealand economic and regulatory ties, including the Closer Economic Relations agreement, the Single Economic Market agenda, and cooperation on business law coordination. These policy settings support regulatory coordination and reduced barriers for businesses operating across both jurisdictions and provide context for considering trans-Tasman comparability in the Tier 2 framework assessment.

52. Australia provides a specific trans-Tasman comparator because New Zealand's Tier 2 framework is currently aligned with Australia's IFRS-based approach through common recognition and measurement requirements, although the disclosure reduction mechanisms are not identical. Australia's Tier 2 framework retains Tier 1 recognition and measurement requirements, with simplified disclosure requirements set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. However, the assessment should still consider whether New Zealand-specific factors, including the absence of public accountability, the diversity of the Tier 2 population, user information needs, preparer and auditor capability, regulatory settings and the objectives of the ASF, indicate that a different approach would be more appropriate for Tier 2 reporting.

53. The international comparison provides useful reference points, but the assessment of options also needs to reflect New Zealand's own Tier 2 population, legislative settings and ASF objectives. As a relatively small jurisdiction, New Zealand's framework decisions may have implications for the wider reporting ecosystem, including preparer and auditor capability, education and professional training, software and systems, guidance, implementation support and workforce mobility and interoperability with Tier 1 reporting.

Practical challenges with the current Tier 2 framework

54. The current Tier 2 framework, NZ IFRS RDR, allows New Zealand to retain alignment with NZ IFRS recognition and measurement requirements while providing reporting relief mainly through reduced disclosures. This may assist entities that grow and move into Tier 1 over time, and users who compare financial statements across Tier 1 and Tier 2 entities. However, practical challenges can arise where full NZ IFRS recognition and measurement requirements are complex, change over time, or where the compliance effort needed to apply requirements does not result in benefits to users.

55. The main practical challenges with the current framework are:

   - **Ongoing implementation and maintenance effort –** Tier 2 entities need to monitor and implement new and amended NZ IFRS requirements, including related changes to systems, processes, controls, accounting policies, disclosures, audit evidence and staff training. This effort may be significant for entities with limited internal reporting capability and where changes are primarily developed for entities with public accountability. Maintenance effort also continues over time because each change to NZ IFRS needs to be assessed for its Tier 2 disclosure implications.

   - **Technical judgement and application consistency –** NZ IFRS are principles based and may require judgement in applying recognition and measurement requirements to complex or evolving transactions. Application may depend on preparer, auditor and advisor capability and assessments of individual facts and circumstances.

- **Proportionality of recognition and measurement requirements –** Tier 2 entities receive disclosure relief but apply the same recognition and measurement requirements as Tier 1 entities. This supports comparability and movement between tiers but may be more complex than necessary for some Tier 2 entities without public accountability (particularly those that are closely held and will never have public accountability).
- **Disclosure relief and compliance effort –** Reduced disclosures can lower the volume of information presented in Tier 2 financial statements. However, the effort saving may not be proportionate to the reduction in disclosure volume, as preparers still need to identify which IFRS disclosures apply, which RDR concessions are available, and whether the resulting disclosures remain complete, useful, entity-specific and auditable. The disclosure checklist process can be complex, particularly where preparers start from full IFRS and work back to determine which disclosures are retained, reduced or removed. This may create compliance and audit effort, particularly for entities with limited internal reporting capability.
- **Limited domestic flexibility –** Maintaining alignment with IFRS recognition and measurement requirements limit New Zealand's ability to simplify requirements or tailor requirements for domestic Tier 2 circumstances without affecting IFRS alignment.

56. These challenges do not, of themselves, indicate that the current Tier 2 framework should change. Rather, they provide context for assessing whether retaining IFRS RDR remains fit-for-purpose, proportionate and operable for entities required to apply Tier 2 reporting requirements.

Reporting framework options considered

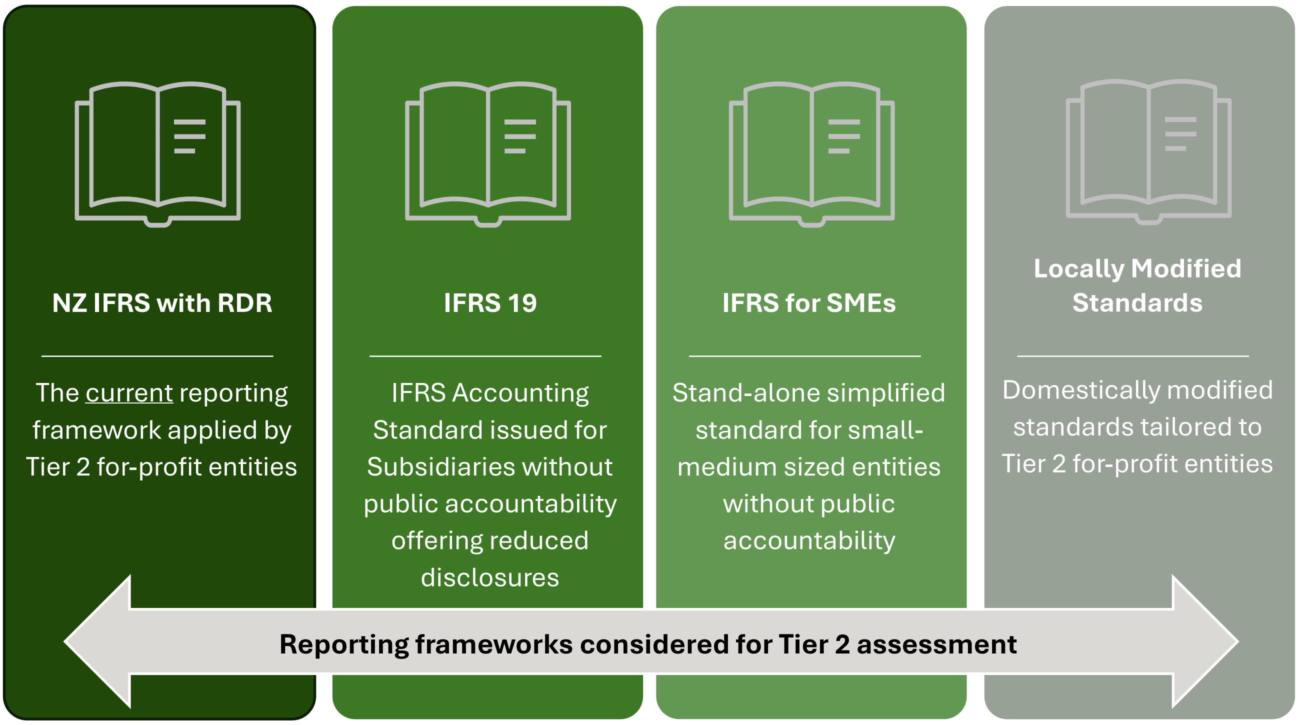
57. This paper considers selected reporting framework options that could apply to entities required to report under Tier 2. The options have been selected to illustrate different framework-level approaches to Tier 2 reporting, including continuing with the current IFRS RDR framework, considering another IFRS-based disclosure-reduction model, considering a separate simplified international framework, or considering a framework with greater New Zealand-specific modification.

58. The selected options allow the assessment to consider different trade-offs, including proportionality, comparability, technical robustness, international alignment, group reporting, operability and implications for New Zealand's reporting ecosystem.

59. US GAAP was assessed in the Tier 1 for-profit reporting framework review paper as a comprehensive non-IFRS comparator and was not considered a viable option for Tier 1. Given the importance of interoperability between Tier 1 and Tier 2, including movement between tiers, group reporting and a common reporting ecosystem, US GAAP has not been included as a viable Tier 2 framework option. For further detail refer to the Tier 1 for-profit reporting framework review paper.

60. Special purpose financial reporting has not been assessed as a separate framework option for Tier 2 entities due to our focus on entities required to prepare GAAP-compliant financial statements. Further consideration to special purpose financial reporting and its roles within the ASF review has been considered separately in the Special purpose financial reporting paper.

61. The reporting framework options selected for assessment are summarised in the visual below. Each framework option will be assessed against the established framework-level criteria as outlined in the For-profit sector overview paper.



62. Inclusion of a framework option in the assessment does not mean it is proposed to be carried forward for consultation. Rather, it reflects staff's consideration of whether any alternative frameworks may provide a suitable option to explore further in the public discussion paper.

Implementation considerations for options involving change

63. Any change from the current Tier 2 for-profit reporting framework would have implications for how the ASF operates for entities required to apply Tier 2 reporting requirements. The feasibility, timing and implementation pathway for any option involving change would require further consideration before any proposal could be developed.

64. This would include consideration of the extent to which any changes fall within the XRB's mandate, interactions with existing legislative and regulatory settings, whether consequential amendments to legislation, regulations or other instruments would be required, whether Ministerial approval would be required for particular changes, and appropriate transition arrangements for affected Tier 2 entities.

65. These implementation considerations have not been assessed in detail as part of the preliminary Tier 2 framework option analysis. They will form an important part of any future development work if the Board decides to explore an option involving change further.

Optionality and framework coherence considerations within Tier 2

66. A further design question is whether Tier 2 for-profit entities should be permitted to choose between more than one reporting framework.

67. Optionality may provide flexibility for some entities, particularly where an entity is part of a wider group, has overseas ownership, uses a parent reporting framework, or has users who compare financial information across jurisdictions. However, allowing more than one framework within

Tier 2, such as permitting different entities to apply NZ IFRS RDR, IFRS for SMEs or a locally modified framework, may reduce comparability, affect user understanding and increase audit, regulatory, systems and capability requirements across the reporting ecosystem.

68. Optionality may also affect framework coherence. The ASF tier structure is intended to provide a clear basis for determining which reporting requirements apply to different entity populations with the characteristics and user needs of Tier 2 in mind. Allowing multiple frameworks within Tier 2 could reduce that clarity unless the circumstances in which each framework may be used are clearly defined.

69. For these reasons, optionality is not assessed as a separate reporting framework option in this paper. Instead, it is treated as a possible design feature that could be considered if the ASF review identifies a need for greater flexibility within Tier 2, including whether different framework options should be available only in clearly defined circumstances.

70. Staff propose that the public discussion paper include a question seeking stakeholder views on whether optionality within Tier 2 should be considered and, if so, in what circumstances and with what implications for comparability, cost, complexity, system coherence and the ongoing maintenance of disclosure concessions.

Analysis of framework options

The Tier 2 reporting framework assessment

71. The analysis that follows applies the framework-level assessment criteria outlined in the For-profit sector overview paper to IFRS RDR and the alternative reporting framework options considered in this paper. The criteria are applied considering the Tier 2 context discussed above, including entity characteristics, legislative and regulatory settings, user and preparer needs, international alignment, interoperability with Tier 1 and practical implementation considerations.

72. The criteria are intended to be applied collectively and do not have fixed weightings, with judgement to support a structured and balanced evaluation of each option. We recognise that simplification and proportionality may carry greater weight for some entities, while interoperability and international alignment may remain important for other entities within groups or with cross-border users. This section summarises the main observations from the assessment and Appendix 5 provides the detailed criterion-by-criterion analysis based on our research and assessment.

73. For this Tier 2 assessment, interoperability with Tier 1 is considered as part of the broader ASF review criteria. It refers to the extent to which a Tier 2 framework remains compatible with the Tier 1 for-profit framework, including consistency in recognition and measurement requirements, movement between tiers, group reporting and consolidation processes, and the use of a common reporting ecosystem. For the purposes of this analysis, the Tier 1 framework is assumed to remain IFRS-based, consistent with the Tier 1 framework analysis in the broader ASF review.

74. We have considered and assessed five possible frameworks for Tier 2 for-profit entities as set out in Appendix 5. Below is the summary assessment across the framework-level assessment criteria used across the broader ASF review.

Tier 2 Option	Move between tiers	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS RDR	Green	Orange	Orange	Green	Orange	Green	Green	Orange
B. IFRS 19	Green	Orange	Red	Green	Red	Orange	Orange	Orange
C. IFRS for SMEs	Red	Orange	Green	Orange	Orange	Red	Red	Green
D. Locally modified NZ standards	Red	Orange	Green	Red	Green	Red	Yellow	Yellow
E. US GAAP	Red	Orange	Red	Orange	Red	Red	Red	Orange

Legend:
- ● (green) Strong fit / low concern
- ● (orange) Mixed fit / medium trade-off concerns
- ● (red) Significant trade-off concerns

Current framework: IFRS RDR

Reporting framework overview

75. As discussed earlier in the paper, IFRS RDR is the current reporting framework applied by Tier 2 for-profit entities. It is based on IFRS Accounting Standards adopted in New Zealand and provides full IFRS recognition, measurement and presentation requirements, with reduced disclosure requirements intended to provide reporting relief for entities without public accountability. Further information about IFRS RDR is provided in the IFRS factsheet in Appendix 2.

Implications for mandated Tier 2 entities

76. Retaining IFRS RDR would support continuity because it is already embedded within New Zealand's financial reporting environment. Existing preparer, auditor, advisor, education, software and implementation capability is largely built around IFRS-based reporting and therefore retaining the current framework would avoid the transition disruption and implementation costs associated with moving to a different framework.

77. IFRS RDR supports interoperability with Tier 1 because Tier 2 entities apply the same recognition and measurement requirements as Tier 1 entities. This may support comparability, group reporting, consolidation processes and movement between tiers, and may reduce the need for accounting adjustments where entities grow, restructure, move within group structures or become publicly accountable.

78. The framework also supports international and trans-Tasman comparability because it remains aligned with IFRS-based recognition and measurement requirements and is broadly comparable with Australia's IFRS-based Tier 2 approach. This is important given the Government policy context for harmonisation with Australia and the number of Tier 2 for-profit entities with trans-Tasman reporting obligations, as noted in XRB A1 paragraph BC16. This may also be relevant for Tier 2 entities with overseas ownership, external financing, group reporting needs or users who compare financial information across jurisdictions.

79. IFRS RDR also allows disclosure concessions to be determined domestically for New Zealand's Tier 2 population. This provides flexibility to consider New Zealand user needs, preparer capability, auditability and the broader mandated Tier 2 population when deciding which disclosures should be retained or reduced. However, maintaining domestic disclosure concessions requires ongoing standard-setting effort as IFRS changes.

80. The main trade-off is that simplification is achieved primarily through disclosure relief rather than different recognition and measurement outcomes. Tier 2 entities continue to apply full

IFRS recognition and measurement requirements, which may be complex for some entities and may not address the main source of reporting effort for some entities.

81. The extent of cost savings may also depend on whether disclosure relief reduces the end-to-end information gathering and reporting process, rather than only reducing the number of disclosures presented. Preparers and auditors still need to assess which full IFRS disclosures apply, which RDR concessions are available, and whether the financial statements remain complete, useful, entity-specific and auditable.

Overall observations

82. Overall, retaining IFRS RDR provides continuity with the current Tier 2 framework, maintain alignment with the IFRS-based reporting ecosystem, support interoperability with Tier 1 and allow domestic calibration of disclosure concessions for the broader Tier 2 population. However, Tier 2 entities would need to monitor and implement IFRS developments, including changes primarily developed for entities with public accountability. Questions may therefore remain about whether disclosure-only relief appropriately balances comparability, proportionality, operability and user information needs across the Tier 2 population.

Alternative framework: IFRS 19

Reporting framework overview

83. IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is an IFRS Accounting Standard issued by the International Accounting Standards Board (**IASB**). It is contained within the suite of IFRS Accounting Standards and is not a new or separate reporting framework in itself. IFRS 19 permits eligible subsidiaries without public accountability to apply full IFRS recognition and measurement requirements with reduced disclosure requirements, enabling those subsidiaries to use the same underlying accounting as the group while reducing disclosures in their own financial statements.

84. IFRS 19 is included in this assessment because it provides an internationally set disclosure-reduction framework for eligible subsidiaries, which is an alternative to NZ IFRS RDR. IFRS 19 differs from NZ IFRS RDR in two main respects:

   - First, its scope is narrower because it applies only to eligible subsidiaries without public accountability whose parent prepares publicly available IFRS-compliant consolidated financial statements. This would only be a subset of Tier 2 entities and not the whole population of Tier 2 entities.
   - Second, the reduced disclosure requirements are set by the IASB, whereas NZ IFRS RDR reflects disclosure concessions determined for New Zealand Tier 2 reporting across the broader Tier 2 population and are set by the External Reporting Board (**XRB**).

85. Both frameworks retain full IFRS recognition and measurement requirements. IFRS 19 is effective for annual reporting periods on or after 1 January 2027, with earlier adoption permitted. Further information about the IFRS Standards (including IFRS 19) is provided within the IFRS factsheet in Appendix 2.

Implications for mandated Tier 2 entities

86. We performed a detailed analysis on the comparison between current RDR and IFRS 19 and our analysis highlighted that while many disclosure requirements in IFRS 19 are like those in IFRS RDR, IFRS 19 includes several additional disclosure requirements. Consequently, IFRS 19 would generally require more disclosures to be made by entities compared to IFRS RDR and the

benefits to users would need to justify the costs for Tier 2 entities to provide these additional disclosures.

87. IFRS 19 may support consistency within groups, consolidation processes and movement between tiers because eligible subsidiaries continue to apply full IFRS recognition and measurement requirements. This may be particularly relevant for Tier 2 entities within larger reporting groups whose parent prepares publicly available IFRS-compliant consolidated financial statements.

88. IFRS 19 may reduce domestic maintenance effort because reduced disclosure requirements would be set internationally by the IASB rather than maintained through domestic RDR concessions issued by the XRB. However, this would also reduce New Zealand's ability to tailor reduced disclosures to the information needs of New Zealand Tier 2 users. Applying IFRS 19 would also require updates to reporting processes, disclosures, audit methodologies and guidance for eligible entities.

89. The main limitation is that IFRS 19 applies only to eligible subsidiaries and does not address recognition and measurement complexity. It may therefore provide a useful disclosure-reduction pathway for a subset of entities but would not provide a complete framework for all Tier 2 entities.

90. Its practical effect would also depend on how many mandated Tier 2 entities meet the eligibility conditions. Because the Tier 2 population cannot be precisely identified or quantified from a complete public dataset, it may be difficult to determine the extent to which IFRS 19 would address issues across the broader Tier 2 population. Introducing a separate IFRS 19 pathway alongside IFRS RDR could add complexity within Tier 2, with implications for comparability, user understanding, audit consistency, education and guidance.

Overall observations

91. Overall, IFRS 19 may provide a useful internationally set disclosure-reduction pathway for eligible subsidiaries and a reference point for considering the ongoing maintenance of domestic RDR concessions. However, because its application is limited to eligible subsidiaries, it remains within full IFRS recognition and measurement, and its use would require ASF design decisions, it would have limited application as a standalone Tier 2 framework.

Alternative framework: IFRS for Small to Medium-Sized Entities (SMEs)

Reporting framework overview

92. The IFRS for SMEs Accounting Standard is a stand-alone standard issued by the IASB for entities without public accountability. It provides a simplified framework with reduced disclosure requirements and simplified recognition and measurement compared with full IFRS.

93. Unlike NZ IFRS RDR and IFRS 19, it does not retain full IFRS recognition and measurement requirements but instead applies a separate set of accounting requirements designed for less complex entities (generally driven by historical IFRS requirements). Further information about the framework can be read in the IFRS for SMEs factsheet in Appendix 3.

Implications for mandated Tier 2 entities

94. IFRS for SMEs is designed for entities without public accountability and includes simplifications in recognition, measurement and disclosure. This may align with the needs of users for some Tier 2 entities, particularly those with less complex transactions, limited reporting capability and where full IFRS-aligned accounting outcomes are not necessary. However, the mandated Tier 2 population is broader than small to medium sized entities and may include large, economically

significant, externally financed or group entities (which IFRS for SMEs is not specifically designed for).

95. The main trade-off is that IFRS for SMEs departs from NZ IFRS recognition and measurement. This may reduce complexity and ongoing change for some entities, but may also affect comparability with Tier 1 entities, group reporting, consolidation processes and movement between tiers. Entities moving from Tier 2 to Tier 1, or reporting into NZ IFRS groups, may need accounting adjustments because IFRS for SMEs can produce different accounting outcomes from NZ IFRS, which will add time, cost and effort for those entities and groups.

96. Adopting IFRS for SMEs would represent a shift away from the current NZ IFRS-based reporting environment. It would require transition work, including identifying differences in accounting policies, opening balances and comparative information, as well as updates to reporting processes, systems, audit methodologies, training and guidance across the reporting ecosystem. As IFRS for SMEs is an IASB developed standard, significant international resources and guidance is available to assist entities.

97. IFRS for SMEs is updated through periodic comprehensive reviews, with the IASB generally aiming to review the standard approximately every five years, rather than through the continuous amendment cycle as applied to full IFRS Accounting Standards. This may provide greater stability and reduce ongoing maintenance effort compared with full NZ IFRS. However, it may also mean that the framework does not respond as quickly to emerging transactions, developments in high-quality financial reporting or changing user needs, and New Zealand would have limited ability to influence the timing or content of IASB updates.

Overall observations

98. Overall, IFRS for SMEs may provide a more proportionate framework for some mandated Tier 2 entities, particularly where simplified recognition, measurement and disclosure requirements better reflect user needs and reporting capability. However, it would also introduce a separate non-NZ IFRS accounting basis, with implications for comparability, group reporting, movement between tiers, transition, capability and the coherence of the ASF.

Alternative framework: Locally modified standards

Reporting framework overview

99. The NZASB could explore locally developed standards across most of the ASF tiers as a possible option within the broader ASF review. We have considered the best approach and concluded that this would not mean developing standards from a blank page. Instead, New Zealand could use an established framework from another jurisdiction, such as the United Kingdom, Australia, or another jurisdiction, as a starting point and make targeted modifications where needed for the New Zealand context. Therefore, this will be referred to as locally modified standards.

100. Locally modified standards would involve adopting another reporting framework as a base and modifying that framework to reflect New Zealand-specific requirements, circumstances or policy objectives. The nature and extent of modifications could vary depending on the objectives of the framework and the underlying framework selected. Further information about the indicative approach to locally modified standards is provided in Appendix 4.

Implications for mandated Tier 2 entities

101. A locally modified framework may provide greater flexibility to respond to New Zealand-specific considerations. Depending on the underlying framework and extent of modification, it may also provide more scope to simplify or adapt requirements for mandated Tier 2 entities, including recognition, measurement, presentation or disclosure requirements where full NZ IFRS-based

requirements are not considered proportionate for entities without public accountability. The implications would depend on the design of the locally modified framework and the suitability of the source framework selected for the Tier 2 population, legislative settings and user needs. Limited modifications to an existing international or jurisdictional framework would have different effects from a more bespoke New Zealand framework.

102. If an IFRS-based framework were used as the source framework, copyright and licensing arrangements would need to be considered. Current IFRS licensing arrangements may constrain the extent to which New Zealand could selectively use, amend or combine IFRS Accounting Standards outside the permitted adoption model[1]. Other jurisdiction's standards may contain similar or more restrictive copyright limitations as well.

103. A significant question is how the potential benefits of greater local relevance and proportionality should be weighed against the implications of moving further away from NZ IFRS alignment. The implications are likely to differ across tiers and sectors. For Tier 2 entities, a locally modified framework may be more relevant where user needs and preparer capability do not require full NZ IFRS-aligned accounting outcomes, but reduced alignment may affect comparability with Tier 1 reporting, group reporting, consolidation processes, movement between tiers and overall ASF coherence.

104. A locally modified framework may affect international and trans-Tasman comparability, recognisability, auditability, systems, guidance and standard-setting capacity. The extent of these effects would depend on the source framework selected, the nature and extent of any modifications, and how readily users, auditors and regulators could understand and apply the resulting framework.

Overall observations

105. Overall, locally modified standards may provide greater domestic flexibility and may support a more proportionate framework for some mandated Tier 2 entities. However, those benefits would not be automatic and would need to be weighed against reduced comparability and interoperability, transition and implementation costs, standard-setting and maintenance demands, access to guidance, ecosystem readiness, the need for disciplined change control and the risk of over-tailoring. While globally competitive capital markets are more directly relevant to the Tier 1 framework assessment, international comparability may still be relevant for some Tier 2 entities, particularly those with growth intentions which involve listing. overseas ownership, group reporting obligations, external financing or users who compare financial information across jurisdictions.

Summary observations and framework options for consultation

106. The assessment indicates that each reporting framework option could provide a basis for Tier 2 reporting, but each would involve different implications for mandated Tier 2 entities. The public discussion paper is intended to seek open feedback on whether the current framework remains appropriate or whether an alternative approach would better balance comparability, proportionality, operability and user information needs for mandated Tier 2 reporters.

107. The assessment identified different benefits and trade-offs across the four framework options.

- **IFRS RDR** provides continuity, interoperability with Tier 1, domestic calibration of disclosure concessions and avoids transition disruption, but retains full IFRS

[1] IFRS Foundation, Licensing of IFRS Standards for adoption and jurisdictional use. This page outlines the IFRS Foundations adoption and copyright arrangements for jurisdictions using IFRS Accounting Standards.

recognition and measurement, ongoing IFRS and RDR maintenance, and RDR compliance effort.

- **IFRS 19** may provide an internationally set disclosure-reduction pathway for eligible subsidiaries but has limited application as a standalone Tier 2 framework due to the differences in scope of eligible entities and the Tier 2 population of New Zealand.
- **IFRS for SMEs** may provide more scope for proportionality or domestic flexibility for some entities, but would involve trade-offs for comparability, group reporting, movement between tiers, transition, capability, maintenance and ASF coherence.
- **Locally modified standards** may provide greater domestic flexibility, but there may be significant impacts on the comparability, maintenance, transition requirements and ecosystem implications for Tier 2 entities. This option could be explored further with stakeholders, including through an indicative methodology to explain what the approach could mean in practice.

108. As such, the framework options proposed to be tested further with stakeholders in the public discussion paper for Tier 2 for-profit entities are IFRS RDR, IFRS 19, IFRS for SMEs and locally modified standards. Inclusion of these options is intended to seek stakeholder feedback on the relative benefits, limitations and trade-offs of each option. The analysis does not indicate that any option is preferred or proposed to retain or replace the current framework.

109. We also note that optionality within Tier 2 may provide flexibility for some entities, but could affect comparability, user understanding, audit consistency, cost, complexity and framework coherence. The public discussion paper should therefore seek stakeholder views on whether optionality within Tier 2 should be considered and, if so, in what circumstances and with what implications for the Tier 2 reporting ecosystem.

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on the analysis presented, including whether it appropriately reflects the key characteristics, reporting needs, challenges, and non-public accountability considerations, as well as any other contextual information relevant to the Tier 2 for-profit entities?

Q2. What are the Board's **VIEWS** on the key trade-offs identified, including whether these appropriately capture the considerations relevant to assessing the Tier 2 for-profit framework?

Q3. Does the Board **IDENTIFY** any areas where further analysis or evidence is required to support the ASF discussion paper?

Extract of public discussion paper

110. We propose including the following blue extract in the public discussion paper to summarise the Tier 2 for-profit reporting framework analysis to test and seek stakeholder feedback on all framework options considered for this tier, along with Appendices 2-5 below.

111. The paper will also summarise the implications of IFRS 19, IFRS for SMEs, and a locally modified framework, and questions to be explored with the stakeholders.

Background for Tier 2 for-profit reporting

The ASF review considers whether the current Tier 2 for-profit reporting framework remains appropriate for entities required to apply Tier 2 reporting requirements. Tier 2 for-profit entities apply New Zealand equivalents to International Financial Reporting Standards with Reduced Disclosure Requirements (**NZ IFRS RDR**), which retain full IFRS recognition, measurement and presentation requirements while providing reduced disclosures for entities without public accountability.

The review does not explore which entities are required by Acts of Parliament to prepare financial statements, as this is driven by the primary legislation itself and cannot be altered through changes to the ASF. The review also does not consider detailed amendments to individual financial reporting standards. Instead, it focuses on whether the current Tier 2 reporting framework, and selected alternative framework options, remain appropriate for entities already required to report in Tier 2.

Tier 2 entities are for-profit entities that are required to prepare GAAP-compliant financial statements and are allocated to Tier 2 because they do not have public accountability and are not large for-profit public sector entities. The Tier 2 population is diverse and may include large private companies, large overseas companies, companies with 10 or more shareholders, entities captured by sector-specific requirements and entities within wider corporate groups. Some Tier 2 entities may look to transition into a Tier 1 entity, while others do not, however Tier 2 preparers may have less extensive reporting infrastructure than Tier 1 entities and incur proportionately higher level of costs in applying full reporting requirements that involves judgement, systems capability, audit support, implementation effort and ongoing cost.

The Conceptual Framework identifies existing and potential investors, lenders and other creditors as the primary users of GPFS, users of Tier 2 financial statements may include lenders, shareholders or owners, parent entities, regulators, prospective investors, suppliers, scheme members where the entity is an FMC reporting entity without a higher level of public accountability (HLPA) such as a managed investment scheme manager, and other stakeholders. Primary users of Tier 2 financial statements may include existing and potential investors, lenders and other creditors. Some users may also receive information through management reporting, owner reporting, group reporting, lender reporting, regulatory reporting or other contractual reporting arrangements. For other users, GPFS may provide a common, independently prepared source of information about the entity.

Alternative frameworks explored for Tier 2 for-profit reporting

We have explored the current IFRS RDR framework alongside selected alternative framework options for mandated Tier 2 entities. These options include IFRS 19, IFRS for SMEs and New Zealand locally modified standards. The options have been selected to test different approaches to balancing comparability, proportionality, interoperability with Tier 1, operability, domestic flexibility and wider reporting ecosystem implications. Optionality between different frameworks within Tier 2 is also considered as a possible design feature of the overall ASF.

Through our analysis, we have identified IFRS RDR, IFRS 19, IFRS for SMEs and locally modified standards as framework options appropriate to test further with stakeholders for Tier 2 for-profit entities. We have outlined an overview of the framework and what the implications may be on Tier 2 for-profit entities and stakeholders if such a framework was used. Supporting material in this discussion paper has also been included in within the Appendix, which includes factsheets on key information around reporting frameworks (IFRS and IFRS for SMEs), an indicative approach summary for locally modified standards and the detailed Tier 2 framework option assessment.

Questions for stakeholders

- **Do you consider that IFRS RDR remains appropriate as the Tier 2 for-profit reporting framework? Why or why not, including in relation to comparability, proportionality, operability, and user information needs?**
- **Do you consider that IFRS 19 should be considered for eligible subsidiaries within Tier 2, either as an available disclosure-reduction pathway or as a reference point for New Zealand's Tier 2 disclosure requirements?**
- **Do you consider that IFRS for SMEs should be considered as a possible Tier 2 for-profit reporting framework? Why or why not, including the implications for proportionality, comparability, group reporting, movement between tiers and transition costs?**
- **Do you consider that locally modified standards approach should be considered as a possible Tier 2 for-profit reporting framework? Why or why not, including whether the indicative approach outlined in this paper would help stakeholders understand how such a framework could be developed?**
- **Should Tier 2 for-profit entities have optionality to apply more than one reporting framework? If so, in what circumstances should optionality be considered, and what would the implications be for comparability, user understanding, audit consistency, cost, complexity and framework coherence?**
- **Do you have any other comments on alternative reporting frameworks for Tier 2 for-profit entities, including any other framework or design features not discussed?**
- **What factors should be given the most weight when assessing the Tier 2 for-profit reporting framework — for example, comparability, proportionality, cost, operability, user information needs, group reporting, movement between tiers, international alignment, or domestic flexibility?**

Questions for the Board

Q4. Does the Board have any **FEEDBACK** on the proposed information and questions for stakeholders to be included in the public discussion paper on this topic, as outlined in blue text.

Q5. Does the Board **AGREE** the discussion paper should seek stakeholder views around optionality – the ability to apply an alternative reporting framework in the Tier, and if so, what the implications would be for comparability, cost, complexity and system coherence?

Appendix contents

The appendices provide supporting material for the analysis in the main paper and are for the Board's consideration. Appendices 2, 3, 4 and 5 (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
Appendix 1	Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions	Provides a high-level comparison of reporting approaches used by New Zealand's top trading partners and selected G20 jurisdictions for listed and non-listed entities.	Board paper only
Appendix 2	IFRS factsheet	Provides supporting information on IFRS Accounting Standards, NZ IFRS RDR and IFRS 19 as the current and alternative Tier 2 reporting framework.	Include in Discussion Paper
Appendix 3	IFRS for SMEs factsheet	Provides supporting information about IFRS for SMEs Accounting Standard as an alternative Tier 2 reporting framework.	Include in Discussion Paper
Appendix 4	Locally modified standards – indicative approach	Provides supporting information about a locally modified standards approach and its framework-level implications.	Include in Discussion Paper
Appendix 5	Tier 2 for-profit entities: framework options analysis	Provides the detailed assessment of each Tier 2 reporting framework option against the framework-level evaluation criteria.	Include in Discussion Paper

Appendix 1 – Financial reporting frameworks across New Zealand's top trading partners and selected G20 jurisdictions

Country	Economic trade value (NZD billion)	Primary framework for other private or non-publicly accountable entities	Broad comparison with the NZ Tier 2 framework
New Zealand	Reference jurisdiction	IFRS with RDR	Baseline for comparison.
	New Zealand top 10 trading partners*		
China	$43.02 total trade Exports $23.08; imports $19.94 Rank 1	Chinese Accounting Standards for Business Enterprises (ASBE)	Different approach – CAS/ASBE are substantially converged with IFRS, but China does not use a New Zealand-style Tier 2 reduced disclosure framework.
Australia	$36.40 total trade Exports $18.58; imports $17.82 Rank 2	AAS standards with simplified disclosures in AASB 1060 for eligible Tier 2 general purpose financial statements	Closest trans-Tasman comparator – both jurisdictions retain substantially the same recognition and measurement requirements for Tier 1 and Tier 2 entities while reducing Tier 2 disclosures. However, the Australian disclosure framework, scope and eligibility requirements are not identical to New Zealand's RDR framework.
United States of America	$30.54 total trade Exports $17.71; imports $12.83 Rank 3	US GAAP, with private company accounting alternatives available where applicable	Different approach – US GAAP is the principal framework for public and private business entities, but eligible private companies may apply specified recognition, measurement, presentation and disclosure alternatives. This is not a comprehensive Tier 2 reduced-disclosure regime comparable to NZ IFRS RDR.
Singapore	$11.00 total trade Exports $2.67; imports $8.33 Rank 4	Singapore Financial Reporting Standards (FRS), with Singapore Financial Reporting Standard for Small Entities (SFRS for SE) available for eligible entities.	Different approach – separate small-entity framework based on IFRS for SMEs, alongside full Singapore Financial Reporting Standards.

Japan	$9.38 total trade Exports $4.76; imports $4.62 Rank 5	Japanese GAAP (JGAAP), with IFRS Accounting Standards available in limited circumstances for eligible entities.	Different approach – primarily JGAAP for many non-listed entities, with IFRS and other frameworks permitted in limited circumstances for eligible entities.
Republic of Korea	$9.31 total trade Exports $3.26; imports $6.05 Rank 6	Korean GAAP / Korean accounting standards for non-listed entities	Different approach – separate domestic framework used for non-listed entities
United Kingdom	$7.73 total trade Exports $4.31; imports $3.42 Rank 7	UK GAAP (FRS 102), with FRS 101 available for qualifying group entities.	Different approach – separate framework for non-publicly accountable entities, with a reduced disclosure option limited to group entities
Germany	$3.83 imports No export top 10 value shown Rank 8	German Commercial Code requirements for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic law-based reporting for many non-listed entities.
Thailand	$3.16 imports No export top 10 value shown Rank 9	Thailand Financial Reporting Standards (TFRS) for Non-Publicly accountable entities, with TFRS available where applicable	Different approach – separate framework for non-publicly accountable entities.
Malaysia	$2.76 imports No export top 10 value shown Rank 10	Malaysian Private Entities Reporting Standard (MPERS), with Malaysian Financial Reporting Standards (MFRS) applying where required.	Different approach – IFRS-aligned framework for entities within scope, with a separate private-entity framework based on IFRS for SMEs.
Selected G20 jurisdictions**			
Taiwan	$2.32 exports No import top 10 value shown Rank 11	Enterprise Accounting Standards (EAS), with IFRS Accounting Standards as endorsed in Taiwan available in some circumstances.	Different approach – Taiwan uses a separate EAS framework for non-public companies, based on IFRS for SMEs, rather than a full IFRS recognition and measurement framework with reduced disclosures.

Argentina	Not shown in top 10 trade data	Local accounting standards, with IFRS-based requirements applying in some circumstances	Different approach – IFRS used for listed entities, with local requirements for many non-listed entities.
Brazil	Not shown in top 10 trade data	Brazilian accounting standards, with simplified requirements available for smaller entities in some circumstances	Different approach – IFRS-converged framework with local requirements for non-listed entities.
Canada	IFRS Accounting Standards for publicly accountable enterprises	Accounting Standards for Private Enterprises (ASPE) for private enterprises, with IFRS Accounting Standards available where applicable.	Different approach – separate domestic framework for private enterprises.
France	Not shown in top 10 trade data	French GAAP for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
India	$2.09 exports No import top 10 value shown Rank 13	Ind AS for listed and specified companies, with Accounting Standards for other companies	Different approach – IFRS-converged framework applies to listed and specified companies, with local Accounting Standards for other companies.
Indonesia	Not shown in top 10 trade data	SAK EP – Standar Akuntansi Keuangan Entitas Privat – for eligible private entities, with other Indonesian financial accounting standards applying depending on entity type.	Different approach – multiple frameworks applied based on entity size and type.
Italy	Not shown in top 10 trade data	Italian GAAP for many individual and non-listed entity financial statements	Different approach – IFRS for listed group reporting, with domestic GAAP for many non-listed entities.
Mexico	Not shown in top 10 trade data	Mexican Financial Reporting Standards for many non-listed entities	Different approach – IFRS for listed entities, with domestic standards for many non-listed entities.
Russia	Not shown in top 10 trade data	Russian accounting standards for many standalone and non-listed entity financial statements	Different approach – IFRS-based reporting for some entities, with domestic standards for many standalone and non-listed entity accounts.

Saudi Arabia	Not shown in top 10 trade data	IFRS for SMEs as endorsed in Saudi Arabia for eligible entities	Different approach – endorsed IFRS for publicly accountable entities and endorsed IFRS for SMEs for eligible non-listed entities.
South Africa	Not shown in top 10 trade data	IFRS or IFRS for SMEs depending on entity type, public interest score and reporting requirements	Different approach – IFRS for entities within scope, with IFRS for SMEs available for eligible entities.
Turkey	Turkish Financial Reporting Standards, aligned with IFRS for public interest entities and other entities within scope	BOBI FRS or other local reporting requirements for entities not applying full Turkish Financial Reporting Standards	Different approach – IFRS-aligned standards for public interest entities, with local frameworks for other entities.
European Union	EU-adopted IFRS for consolidated financial statements of listed groups	National GAAP requirements for many non-listed entities, subject to member state law	Different approach – IFRS for listed group reporting, with national frameworks for many non-listed entities.

* **Source**: Stats NZ New Zealand international trade dashboard to year ending 31 March 2026. Date of source retrieval 22 June 2026. New Zealand's top trading partners are identified based on total trade in goods and services for the year ended 31 March 2026. This is derived by considering the top export destinations and top import origins. Countries appearing in both export and import lists are treated as significant trading partners due to their two-way trade flows. Additional countries are included based on their prominence within either exports or imports to complete the selected top 10 group. The order of presentation is for comparison purposes and should not be read as a precise ranking of total trade flows.
** G20 rows are included to illustrate broad international practice. The table is intended to provide a high-level comparison of selected approaches and is not a comprehensive legal analysis of each jurisdiction.

*** The G20 comprises 19 countries together with the European Union, and, since 2023, the African Union. For the purposes of this table, the G20 country rows include the 19 individual country members and the European Union, excluding countries already listed as New Zealand top 10 trading partners.

Appendix 2 – IFRS factsheet

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.

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.

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

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 issued to clarify the application of IFRS 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.

Appendix 3 – IFRS for SMEs factsheet

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.

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.

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 *XRB A1 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

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 4 – 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 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.

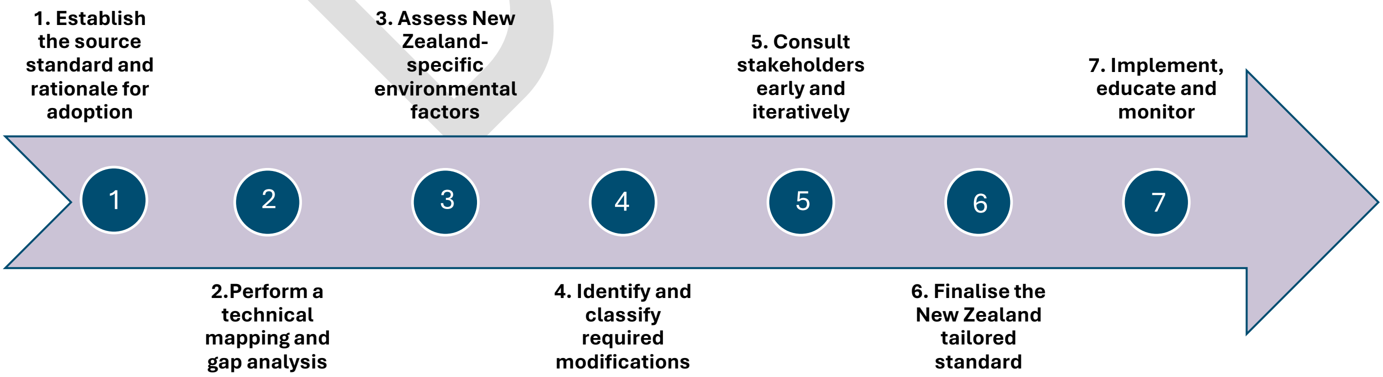
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

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 copyright 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 copyright, 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, Financial Markets Conduct Act, Charities Act, Crown Entities Act.
- **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:** Investors, donors, funders, 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 decision-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 NZ-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 –*** *Does the requirements create any conflicts with other NZ reporting frameworks (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** – Does 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 for-profit capital markets make sense for New Zealand entities to report?*
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)?*

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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 NZASB'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 in 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.

Appendix 5 – Tier 2 for-profit entities: framework options analysis

Note:
Refer to the overview slides for this paper on the next page which contains the detailed framework option analysis.

Tier 2 for-profit alternative framework key criteria analysis

For profit sector

Tier 2 population – what we currently know

Research conducted in 2016/17 indicated an estimated ~2,246 Tier 2 for-profit entities. This was derived from multiple datasets (Stats NZ, FMA, Companies Office, OAG, etc - report)

→

These entities comprise only a small share of NZ businesses (~1.5%), but are typically larger entities with GAAP reporting obligations

→

The population is heterogeneous, spanning:
- large privately owned companies without public accountability,
- overseas companies operating in NZ,
- entities with multiple shareholders, and
- smaller for-profit public sector entities

→

Key limitation – There is no centralised register → population size, composition, and voluntary use are uncertain, particularly for entities opting into Tier 2.

This limited visibility constrains how confidently we can assess whether the current Tier 2 framework remains proportionate and fit for purpose.

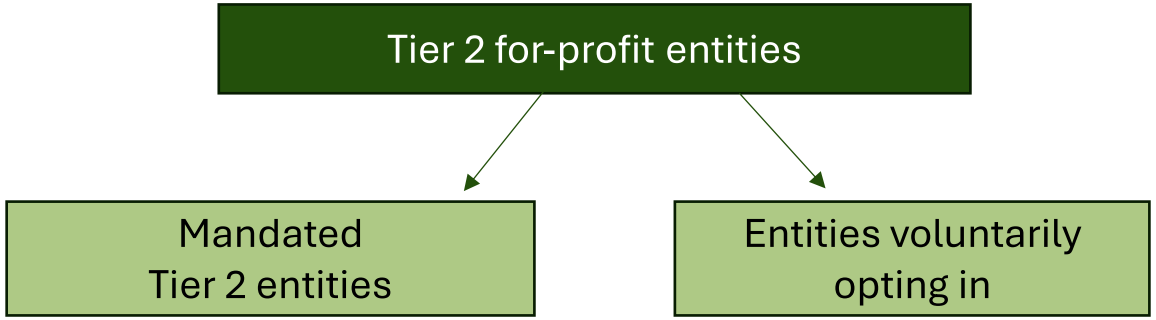
Understanding who is in Tier 2

Not all tier 2 entities have filing obligations – we therefore do not have visibility of the population size, scale, and complexity of all the tier 2 for-profit entities using our standards.

We understand this tier comprises two groups:

- those legally required to report under Tier 2 ("mandated entities"); and
- those that voluntarily opt in (reasons may vary - including audit, financing requirements, etc.). These entities are not the primary focus of the legislative framework (i.e. our mandate) but they form part of the broader financial reporting system (i.e. entities that apply our standards). It remains uncertain whether the current framework appropriately meets their needs.

A key question is whether we should consider the appropriateness of the tier 2 framework to suit the needs of the mandated entities only or both mandated entities and those that voluntarily opt into tier 2 (refer to slide 22 where this is further considered).



Note: The Tier 2 for-profit analysis in slides 11-15 and 17-21 , as well as appendix 1-2, focuses on mandated Tier 2 entities. Slide 22 and questions 8-9 focus on entities that voluntarily opt in.

Mandated Tier 2 entities

The minimum legislative threshold as per the Financial Reporting Act 2013 and Companies Act 1993 (noting that other legislation may also impose GAAP compliant financial reporting obligations) place the following entities in the mandated Tier 2 category:

- companies with over **$66m in assets or $33m in revenue;**
- overseas companies with over **$22m in assets or $11m in revenue;** and
- companies with **more than 10 shareholders.**

These mandated Tier 2 entities:

- Meet a minimum **economic scale** set by legislation
- May have **significant creditors, employees and stakeholders**
- Operate at a scale where a credible, consistent, and **trusted financial reporting framework is essential**.

These characteristics indicate that mandated Tier 2 for-profit entities are **economically significant** and warrant a **robust and credible financial reporting framework**.

The legislative requirements to apply XRB Accounting Standards is set through primary legislation. Refer to *Appendix 1* for more details on these requirements.

Framework currently applied by Tier 2 for-profit entities:
Tier 2 for-profit entities currently apply NZ IFRS with reduced disclosure requirements (NZ IFRS with RDR). This is an IFRS principles-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.

User focus – Tier 2 for-profit entities

Primary users
- Lenders and other creditors (including banks and debt providers)
- Owners/shareholders (often closely held or not publicly traded)
- Regulators and other oversight bodies

Nature of user needs
- Assess ability to meet debt obligations, cash flow sustainability, and financial resilience
- Understand financial performance and position to support capital allocation decisions
- Obtain sufficiently comparable and credible information, while recognising cost constraints

Implications for Tier 2 reporting
- Reduced emphasis on public capital market comparability relative to Tier 1
- Greater focus on decision-usefulness for creditors and private investors
- Balance required between:
    - simplicity and cost of preparation; and
    - maintaining faithful representation and credibility of information

Key challenges with the current Tier 2 design

As part of the review of the Tier 2 for-profit reporting standards framework, staff have identified challenges associated with the current standards. These challenges reflect feedback from stakeholders, staff experience, and observed pressures within the reporting ecosystem. They help to frame why the standards framework is being reconsidered, while also considering how the issues will be best addressed.

1. Complexity of requirements

- Technically complex and resource-intensive to apply.
- Transitioning from non-GAAP reporting to full IFRS recognition and measurement is challenging.
- Complexity drive challenges in both application and understanding.

2. Cost of change and remaining current

- Ongoing changes creates pressure on preparers and the broader ecosystem.
- The challenge is not only change itself, but the ability of preparers and users to remain current through ongoing investment in education and capability.

3. Spectrum of entities, usefulness and relevance of reporting

- It is unclear whether Tier 2 reporting provides information that meets user needs.
- Limited visibility over the Tier 2 population constrains the ability to assess usefulness.
- This raises questions about the relevance and proportionality of the current framework.

Mandated Tier 2 entities options explored

NZ IFRS with RDR (*as noted on slide 7. Included again on this slide for comparison purposes)* - an IFRS principles-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 is used in 161 jurisdictions.

A: IFRS with RDR

B: IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

C: IFRS for Small and Medium-sized entities (IFRS for SMEs)

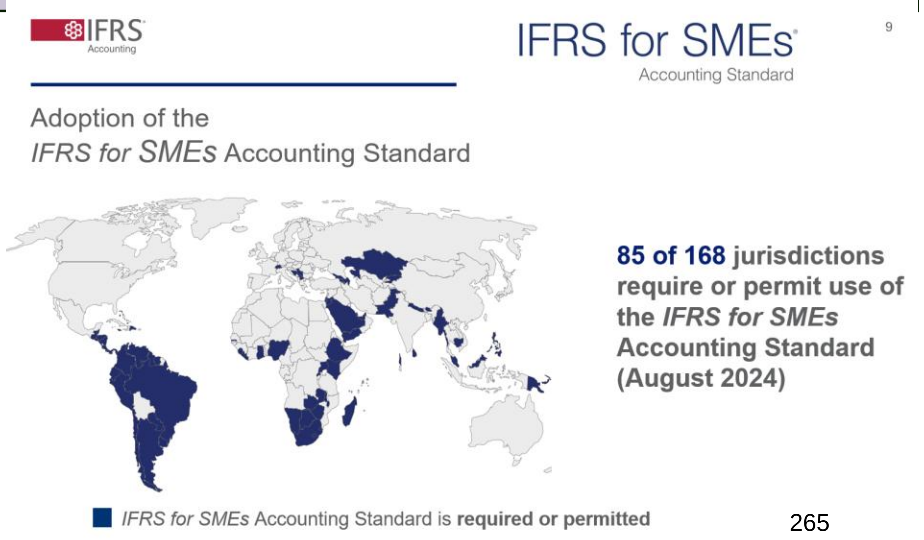
D: Locally modified

E: US GAAP

IFRS 19 - permits eligible entities that apply full IFRS recognition and measurement requirements a reduced set of disclosures (similar to NZ IFRS with RDR). IFRS 19 may not provide meaningful additional simplification compared with the current NZ IFRS RDR, refer to the IFRS 19 position statement on our website for further information. There are currently no jurisdictional use statistics for IFRS 19.

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. This framework is used in 85 jurisdictions.

US GAAP - a single rules-based comprehensive framework with limited simplification for private entities through targeted alternatives, rather than a separate reduced or simplified reporting framework. This framework is primarily used in one jurisdiction.



***To note -** The framework options presented include IFRS-based approaches, which should be considered in light of the sector analysis—particularly the implications for a potential sector-neutral model, and whether an IFRS-based framework can appropriately meet the differing reporting objectives, user needs, and accountability requirements across sectors.*

Mandated Tier 2 entities options explored

Key criteria-	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
This means:	Technical fitness; coherent suite capable of handling complex transactions developed with user needs in mind (preparer and user focus)	Simplification options (addressing preparers' concern about complexity)	Internationally aligned Internationally recognised and comparable - including Australia	Ability to make local modifications and/or influence internationally to enable local relevance	Ecosystem and workforce considerations (the market)	Cost of change (transition costs for preparer and ecosystem)	Ongoing costs incl. maintenance of the standards (i.e. how often are changes expected) (preparer focus)

The Tier 2 for-profit key criteria are consistent to that of Tier 1 except for the addition of:

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

What the analysis is telling us

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.

Tier 2 Option	Move between tiers	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. IFRS RDR	Green	Amber	Amber	Green	Amber	Green	Green	Amber
B. IFRS 19	Green	Amber	Red	Green	Red	Amber	Amber	Amber
C. IFRS for SMEs	Red	Amber	Green	Amber	Amber	Red	Red	Green
D. Locally modified standards	Red	Amber	Green	Red	Green	Red	Yellow	Yellow
E. US GAAP	Red	Amber	Red	Amber	Red	Red	Red	Amber

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

Tier 2 Option	Recommendation	Key drivers of the assessment		
A. IFRS RDR	Option to be included DP	1. Internationally credible	2. Interoperability with Tier 1	3. Copyright agreements limits simplification
B. IFRS 19	Option to be included DP	1. Restricted eligibility	2. Internationally credible and interoperability with Tier 1	3. Copyright agreements limits simplification
C. IFRS for SMEs	Option to be included DP	1. Simplified recognition and measurement	2. Disruption of current ecosystem	3. Reduced ongoing costs
D. Locally modified	Option to be included DP	1. Simplification possible	2. Loss of international credibility	3. High transition and maintenance costs
E. US GAAP	Not recommended	1. Only used primarily in one jurisdiction	2. High transition costs	3. Loss of Aus harmonisation

Tier 2 For-profit

Detail supporting the options assessment

Option A – IFRS RDR

Pros	• NZASB's ability and control to consider proportionality through reduced disclosure burden • Consistent recognition and measurement to Tier 1 • Comparable to Tier 1 entities providing international credibility and investor and user confidence • Facilitates consolidation across mixed-tier groups • Lower costs when moving between tiers • Established domestic workforce capability and global talent pool • Globally informed standard-setting process • No transition costs and market disruption • Access to IFRS-ready accounting systems • Extensive guidance and support • Future-proofing
Cons	• Recognition and measurement requirements may exceed user needs • Reduced transparency for some users • Copyright restrictions – mandatory full-suite adoption • Resource strain during change.

Option A – IFRS with RDR

Criteria	Analysis
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Retaining NZ IFRS RDR supports workforce interoperability as there is a reduced need for separate training and capability streams.
Technical fitness	Fulsome framework with 43 NZ IFRS standards providing clear principles for accounting of most complex transactions. Development of these standards takes into account global users and best practices. However, recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	XRB has ability to reduced disclosures to simplify. Further simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned.
International alignment	Supports access to capital markets by ensuring Tier 2 entities continue to report under an internationally recognised framework (used in 161 jurisdictions), even with reduced disclosures are retained. Recognition and measurement may be harmonised with Aus with disclosure focused on the NZ perspective while also considering the AASB's approach.
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. The XRB has the flexibility to consider which prescribed IFRS disclosures are retained.
Ecosystem	Well-established IFRS focused ecosystem supported by workforce, auditors and technology. Ongoing training through accounting firms, standard setters and educational institution. Access to global talent pool ensures work force mobility and sustained capability.
Transition costs	No change is required, so no additional costs would arise. Existing software and systems already support the current IFRS-aligned environment.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes.

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

Option B – IFRS 19

Pros	• International consistency and comparability • A single, centralised disclosure standard • Reduced domestic standard-setting effort. The IFRS 19 pros and cons below are in addition to those for NZ IFRS RDR included under option A, except for the pros highlighted in blue on the previous slide.
Cons	• Restrictive eligibility as it applies to subsidiaries without public accountability • Less control and flexibility for NZASB to tailor disclosures to be fit-for-purpose • Potential increase in ASF complexity • Transition costs • Risk of disclosure misalignment with local user needs.

Option B - IFRS 19

Criteria	Analysis
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Supports workforce interoperability as there is a reduced need for separate training and capability streams.
Technical fitness	Will be a fulsome framework with 44 NZ IFRS standards providing clear principles for accounting of most complex transactions. However, recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	Reduced disclosures are set by the IASB. Simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned.
International alignment	Supports access to capital markets by ensuring Tier 2 entities continue to report under an internationally recognised framework (used in 161 jurisdictions), even with reduced disclosures are retained. Recognition and measurement may be harmonised with Aus with disclosure prescribed by IFRS 19 which may or may not be aligned with Aus in all instances.
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.
Ecosystem	Well-established IFRS focused ecosystem with ongoing training. Access to global talent pool ensures work force mobility and sustained capability. Some disruption to align disclosures with IFRS 19 requirements.
Transition costs	Some disclosure changes may be required. Existing software and systems already support the current IFRS-aligned environment for recognition and measurement but may require some changes for disclosure.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes.

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

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	• Materially different recognition and measurement requirements • Mixed-tier group consolidation complexity • Reduced comparability with NZ Tier 1 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
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles. Does not supports workforce interoperability as separate training will be required.
Technical fitness	Fulsome framework providing simplified recognition and measurement requirements for accounting of most transactions. However, may not be able to deal with some complex transactions.
Simplification	Simplified recognition and measurement requirements. Further simplification option limited - under existing IFRS copyright agreement there is a mandatory full-suite adoption.
International alignment	Internationally recognised as required or permitted in 85 jurisdictions. However, it may not provide sufficient information to gain access to capital markets.
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.
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 full IFRS.
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.
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 IFRS.

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

Option D – Locally modified NZ Standards

Pros	• Full control over standard-setting • Tailoring to NZ circumstances • 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 NZ Standards

Criteria	Analysis
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 IFRS-based Tier 1 for-profit framework.
Technical fitness	Significant time and resource requirement to create a coherent suite of standards that is capable of dealing with most complex transactions. Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Simplification	Simplification is possible - there are other jurisdictional frameworks we can leverage from, and tailor requirements to reduce complexity in the standards.
International alignment	Would not be recognised internationally and unlikely to be used outside New Zealand, limiting comparability and potentially restricting access to global capital markets. Australia: not aligned
Local relevance	Standards could be tailored to New Zealand users, but this may not meet the needs of international investors or other global users.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	This can be managed locally but some costs and changes will be required. Similarly existing software and systems implemented may require some change. XRB and wider NZ workforce capability implications due to risk unintended consequences.
Ongoing costs	Changes to locally modified standards can be contained. There is a risk that evolving arrangements are not timeously addressed in standard setting.

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

Option E – US GAAP

Pros	• Alignment with the world's largest capital market • More prescriptive (rule-based) standards with detailed guidance • Reduced judgement risk for preparers
Cons	• Change would impose extensive transition costs and severe organisational disruption, including comprehensive workforce retraining and large-scale system redevelopment • Loss of international comparability outside the US • Not developed for NZ entities • Equal or more ongoing compliance costs resulting from prescriptive accounting requirements • New Zealand is unable to influence developments • Loss of harmonisation with Aus

Option E – US GAAP

Criteria	Analysis
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required for adoption of US GAAP.
Technical fitness	Over 90 Accounting Standard Codifications that are rule based and capable of dealing with most complex transactions.
Simplification	Simplification option: expected to have similar limitations like IFRS
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. Australia: not aligned
Local relevance	New Zealand would have no ability to influence the standard-setting process within the US, this means there will be no local inputs into the development of these standards.
Ecosystem	US GAAP adoption would significantly disrupt the current ecosystem, requiring major retraining of auditors and practitioners and system changes (technology). It would limit workforce mobility given the current talent pipeline is aligned with IFRS.
Transition costs	Significant cost and changes will be required. Existing software and systems implemented do not support the US GAAP environment. XRB and wider NZ workforce does not currently have sufficient US GAAP experience to support adoption.
Ongoing costs	With transactions evolving, accounting standards evolve which results in regular changes.

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

Appendix 1 - Legislative requirements to apply XRB accounting standards

Primary legislation determines 'who' is in scope and required to apply the ASF and XRB accounting standards. Below are the legislative requirements to apply XRB accounting standards and the relevant parameters (this list is not exhaustive):

Primary legislation	Legislative requirements
Financial Reporting Act 2013 (FRA) - Section 9,12 & 45	• Obligation to comply with GAAP when another Act requires financial reporting – this section ensures that where the Companies Act or FMC Act (applicable to Tier 1 entities) requires financial statements, they must follow XRB standards (Section 9) • XRB mandate to issue financial reporting standards (Section 12) • Defines 'large' (over $66m assets or $33m revenue, for last two accounting period), and, defines 'large overseas company' (over $22m assets or $11m revenue for last 2 accounting periods) (Section 45)
Companies Act(Co Act) 1993 - Sections 200-202	The following types of companies are required to comply with GAAP: (a) large company; (b) public entity; (c) large overseas company; (d) company with 10 or more shareholders unless opted out of compliance with the provision; and (e) company with fewer than 10 shareholders but opted into compliance with the provision.
Other legislation requiring GAAP compliant financial reporting	We note that several other Acts also impose GAAP reporting obligations, for example – Building Societies Act 1965, Energy Companies Act 1992, Incorporated Societies Act 2022, Māori Community Development Act 1962, etc. (this list is not exhaustive).

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	6 August 2026
Subject:	**Accounting Standards Framework review – entities that voluntarily apply Tier 2 reporting requirements**
Date:	24 July 2026
Prepared by:	Raveen Kaur
Inputs by:	Leana Van Heerden
Through:	Nimash Bhikha; Michelle Lombaard

☐ **Action Required** ☒ **For Information Purposes Only**

Purpose

1. This paper provides context for the Accounting Standards Framework (**ASF**) review, with a particular focus on the population of Tier 2 for-profit entities considered in the for-profit sector review, and entities that are not mandated to prepare GAAP-compliant financial reporting but voluntarily report under Tier 2 for-profit requirements.

Recommendations

2. We recommend the Board:

- **NOTE** that the External Reporting Board (**XRB**) has considered entities that voluntarily apply Tier 2 for-profit reporting requirements as contextual information, but has not taken those entities into consideration when assessing whether the ASF remains fit-for-purpose for mandated Tier 2 entities, for reasons outlined in this paper;
- **PROVIDE FEEDBACK** on whether this paper provides sufficient context and explanation for that treatment, including for the ASF discussion paper; and
- **PROVIDE FEEDBACK** with the proposed information to be included in the public discussion paper on this topic (outlined in blue text).

Scope of this paper

3. This paper focuses on entities that voluntarily opt in to apply Tier 2 for-profit reporting requirements and explains why they have not been considered as part of the ASF review's assessment of whether the ASF remains fit-for-purpose for mandated Tier 2 entities.

4. Unless otherwise stated, references in this paper to:

- **Tier 2** mean Tier 2 for-profit entities,
- **mandated Tier 2 entities** mean Tier 2 for-profit entities that are required to prepare generally accepted accounting practice (**GAAP**)-compliant financial statements by legislation and are allocated to Tier 2 under the ASF, and

- **voluntary Tier 2 reporters** mean entities that are not legally required to prepare GAAP-compliant financial statements but choose to apply Tier 2 for-profit reporting requirements.

Background

5. Tier 2 for-profit entities currently apply New Zealand equivalents to International Financial Reporting Standards with Reduced Disclosure Requirements (**NZ IFRS RDR**).

6. Primary legislation determine which entities are required to prepare financial statements in accordance with GAAP. The ASF does not create that reporting obligation. Rather, where an entity is required to prepare GAAP-compliant financial statements, the ASF determines the applicable reporting tier and accounting standards. This legislative basis is explained further in the ASF background paper.

7. In the for-profit sector, an entity is allocated to Tier 2 if it does not have public accountability and, in the case of for-profit public sector entities, has annual expenses of $33 million or less, and for these entities, reporting in line with NZ IFRS RDR will comply with GAAP.

8. Some entities are not legally required by legislation to prepare GAAP-compliant financial statements, but they may nevertheless choose to apply Tier 2 reporting requirements voluntarily, for example to meet governance, lender, shareholder, parent entity, contractual or commercial arrangements or other stakeholder information needs.

9. We have considered voluntary Tier 2 reporters given they can directly apply the Tier 2 standards, and some practical challenges have been heard during outreach about Tier 2 requirements, including concerns that the requirements may be too complex or not proportionate for their needs. Given the XRB's role in ensuring high quality reporting in New Zealand, there may be a public expectation that the Tier 2 framework is fit-for-purpose for all entities that apply it (either mandatorily or voluntarily).

10. We note the NZ IFRS RDR reporting framework is not specifically designed for these entities or the user needs of these entities and the entity may choose to follow another reporting framework depending upon their reporting intentions and needs of their users.

Why voluntary Tier 2 for-profit reporters are not considered in assessing whether the ASF remains fit-for-purpose

11. The ASF review's assessment of whether the framework remains fit-for-purpose is focused on mandated Tier 2 entities, as defined in paragraph 4 of this paper. The purpose of that assessment is to consider whether the Tier 2 reporting requirements remain appropriate and proportionate for that population.

12. Voluntary Tier 2 reporters are in a different position as their use of Tier 2 standards reflects a choice rather than a reporting obligation. They may also vary significantly in size, economic significance, reporting purpose and user needs. As a result, their reporting needs should not be the primary basis for determining the reporting requirements that apply to mandated Tier 2 entities. Including voluntary reporters in that assessment could make it more difficult to assess whether the Tier 2 reporting requirements are appropriately calibrated for mandated Tier 2 for-profit entities and their users.

13. Voluntary Tier 2 reporters may have alternative financial reporting options available, including preparing special purpose financial statements driven by the specific needs and demands of their users, management or tax accounts, or parent-entity reporting packs without detailed disclosures. The role of special purpose financial statements within the ASF is being considered

separately as part of the ASF review and is therefore outside the scope of this paper. Further discussion is provided in the special purpose reporting paper.

14. Neither the mandated nor voluntary Tier 2 reporting populations can be readily identified through a central register. Nevertheless, the review focuses on mandated Tier 2 entities because the ASF review is assessing the reporting framework for entities to which the ASF allocates reporting requirements. Voluntary application reflects entity-specific circumstances based on their own choices, that vary considerably.

15. We acknowledge that voluntary Tier 2 reporters are part of New Zealand's broader economic ecosystem and that their practical reporting challenges may not be directly addressed through the ASF review. However, given primarily legislation has determined that only entities that are 'large'[1] need to prepare GAAP-compliant financial statements, we consider the ASF review should focus on reporting frameworks remain fit-for-purpose for users of mandated Tier 2 entities' financial statements. We will consider whether the XRB website or other communications could better explain the reporting options available to voluntary Tier 2 reporters and users, rather than defaulting to NZ IFRS RDR.

16. For that reason, voluntary Tier 2 reporters have been acknowledged but have not been included in the ASF review's assessment of whether the framework remains fit-for-purpose for mandated Tier 2 entities.

Extract of public discussion paper

17. We propose including the following wording within the public discussion paper to explain why voluntary Tier 2 reporters have been included for contextual purposes in the ASF review, but not as part of the assessment of whether the framework remains fit-for-purpose for mandated Tier 2 entities. Appendix 1 provides an overview of where this paper sits within the broader ASF review.

> The ASF applies where legislation requires an entity to prepare financial statements in accordance with GAAP. Some for-profit entities are not legally required to prepare GAAP-compliant financial statements as they do not meet the statutory "*large*" thresholds for GAAP reporting within Section 45 of the Financial Reporting Act 2013.
>
> These Tier 2 reporters may have alternative financial reporting options available, including preparing special purpose financial statements driven by the specific needs and demands of their users. However, some of these entities may choose to apply Tier 2 for-profit reporting requirements voluntarily. Voluntary Tier 2 reporters are in a different position because their use of Tier 2 for-profit reporting requirements reflects an entity-specific reporting choice, rather than a primary legislative requirement to prepare GAAP-compliant financial statements. They may vary significantly in size, economic significance, reporting purpose and user needs. As a result, their reporting needs should not be the primary basis for determining the reporting requirements that apply to all Tier 2 entities.
>
> As such, these voluntary Tier 2 reporters have been considered as contextual information in the ASF review, but they have not been considered as part of the ASF review's assessment of whether the framework remains fit-for-purpose, because that assessment focuses on entities that are mandated to report under the ASF.

[1] Section 45 of the Financial Reporting Act 2013 defines "large" by reference to asset and revenue thresholds, including more than $66 million assets or $33 million revenue for each of the two preceding accounting periods, and "large overseas company" by reference to more than $22 million assets or $11 million revenue for each of the two preceding accounting periods.

Question for the Board

Q1. Does the Board have any **FEEDBACK** on whether this paper provides sufficient context and explanation to support the treatment of voluntary Tier 2 reporters in the public ASF Discussion Paper, including the decision not to take those entities into account in the detailed Tier 2 framework options analysis?

Q2. Does the Board have any **FEEDBACK** on the proposed wording which can be included into the public discussion paper around why voluntary Tier 2 reporters have only been considered contextually and not within the framework options analysis?

Appendix 1: Overview Slides

Note:
Refer to the overview slides for this paper on the next page.

Tier 2 For-profit

Voluntary opting in

Voluntary opting in

Entities not required to apply GAAP – options and implications

Entities not required to apply GAAP – what is happening in practice

A significant number of for-profit entities are not required to prepare GAAP-compliant financial statements, but may voluntarily choose to report under Tier 2.

Why some entities voluntarily adopt Tier 2

Despite having simpler options available, some entities choose Tier 2 to:

- Access finance, meet lender expectations, or support credit assessments
- Provide credibility and comparability through an established GAAP framework
- Facilitate group reporting or consolidation
- Support governance and oversight requirements

Alternative reporting options available

Entities not mandated to apply GAAP may instead:

- Prepare special purpose financial reports (SPFR) tailored to their specific users
- Provide management accounts or lender-specific reporting
- Apply simpler reporting frameworks (including tax-based or cash-based reporting)

These options may be more proportionate to their size, complexity, and user needs

Implications for the Tier 2 framework

Some concerns about complexity and cost may reflect the experiences of voluntary adopters, rather than mandated entities. This raises the question of whether:

- The Tier 2 framework is being applied more broadly than originally intended, and
- The alternative reporting options are sufficiently understood and utilised

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

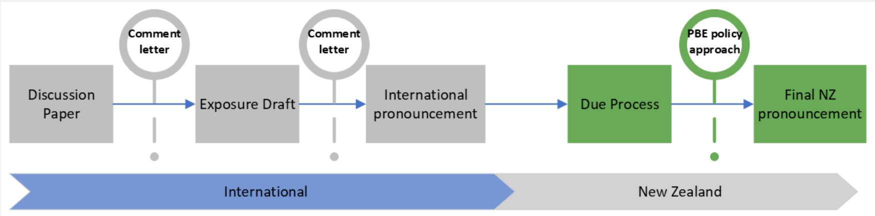
To:	NZASB Members
Meeting date:	6 August 2026
Subject:	**Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)**
Date:	24 July 2026
Prepared by:	Nimash Bhikha
Through:	Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET
Project priority and complexity

Project purpose	**IASB Purpose:** To develop proposals to clarify which entities are eligible to measure investments in associates and joint ventures using the fair value option in IAS 28 *Investments in Associates and Joint Ventures*, particularly as eligible entities can use this option when adopting IFRS 18 *Presentation and Disclosure in Financial Statements*. **NZ Purpose:** To ensure the IASB's requirements are appropriately incorporated into NZ IFRS Standards to support financial reporting for New Zealand entities and help eligible entities can use this option when adopting NZ IFRS 18.
Cost/benefit considerations	**Benefits:** This standard will maintain alignment within international standards and provide clarify for entities who can utilise this option, which will help their implementation of NZ IFRS 18. **Costs:** This standard has minimal costs and focuses on clarifying which entities can use the existing option with NZ IAS 28. The standard does not introduce new requirements on entities and will not impact entities who currently use the fair value option. Further cost and benefit considerations are made within the Consistency Accountability Statement (CAS) memo.
Project priority	**Low** The proposed changes within the standard are minimal, however they will provide clarity for eligible entities who can use this option when adopting NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

Overview of agenda item

Project status	
Board action required	**High complexity** • **APPROVAL** to issue *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)* (Agenda Item 9.1b) • **APPROVAL** of the signing memo from the NZASB Chair to the Chair of the External Reporting Board (Agenda Item 9.1c) • **APPROVAL** of the Consistency Accountability Statement (CAS) assessment memo (Agenda Item 9.1d)

Purpose

1. The purpose of this memo is to seek approval of the domestic equivalent to the IASB amending standard *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*.

Recommendations/ actions

2. We recommend that the Board:

   (a) **APPROVE** for issue the amending standard *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*;

   (b) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*; and

   (c) **APPROVE** the Consistency Accountability Statement (CAS) assessment memorandum.

Structure of this memo

3. This memo includes the following sections:

   (a) Background

   (b) Summary of the main requirements

   (c) Consistency with Australian Accounting Standards

(d) Due process

(e) Commencement and application

(f) XRB signing memorandum

(g) Consistency Accountability Statement (CAS) assessment

Background

4. Stakeholders informed the IASB of diversity in how the requirements for the fair value option in IAS 28 *Investments in Associates and Joint Ventures* are applied and the effects of that diversity on the classification of income and expenses in the statement of profit or loss in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*.

5. Stakeholders said clarity about which entities are eligible to measure investments using the fair value option in IAS 28 is particularly important because more entities are considering whether to elect that option as part of their implementation of IFRS 18. IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027; therefore, any amendments to IAS 28 would need to be completed ahead of that date

6. In June 2026, the IASB issued *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to IAS 28)* which is mandatory for annual periods beginning on or after 1 January 2027, the same mandatory date for IFRS 18.

Summary of the main requirements

7. The narrow-scope amendments clarify which entities are eligible to measure investments in associates and joint ventures using the fair value option in NZ IAS 28 by linking these to entities that have main business activities of investing in assets as defined in NZ IFRS 18.

8. The amendments impact the following paragraphs:

- **Paragraph 18** – Adds in clarification that "similar entities" include those that have a main business activity of investing in particular types of assets and adds in reference to NZ IFRS 18. Remove examples and references to investment-linked insurance funds and removes reference to NZ IFRS 17 around defined terms.
- **Paragraph 19** – Remove references to investment-linked insurance funds.
- **Paragraph 45M** – Adds in new commencement and application wording to explain these amendments must be applied when an entity applies NZ IFRS 18.

NZASB comments on the proposals

9. The NZASB raised the following key recommendations on the Exposure Draft through its comment letter on 14 April 2026, and the IASB has responded to these matters as outlined in the table below:

#	NZASB Comment	IASB Response	XRB staff conclusion
1	**Revocation of the fair value option when business activities change** The NZASB recommended allowing revocation or an accounting policy choice to improve comparability.	**IASB did not address or adopt this recommendation.** The amendments were intentionally narrow in scope and focused only on clarifying eligibility, not changing the irrevocable nature of the fair value option. The IASB stated the amendments should "be narrow in scope and focused on the concerns described in paragraph BC19K" and "not affect entities that already use the fair value option" (BC19L).	We note the IASB chose not to expand the project, so the fair value option remains irrevocable, but note the IASB has signalled that this scope of the fair value option to all entities and revocation will be considered through another project at a later stage. **We will monitor whether there are revocation issues around the fair value option as NZ IFRS 18 is adopted and consider any further actions if significant concerns are identified.**
2	**Scope of the fair value option under these proposed amendments** The NZASB raised concerns about inconsistent reporting and practical challenges for groups with different main business activities.	**IASB acknowledged the concerns but retained the proposed approach.** The IASB clarified that eligibility depends on the nature of the entity holding the investment, not the purpose for which it holds it (BC19N - BC19Q). The IASB explicitly rejected tying eligibility to whether the investment itself is part of the main business activity, noting this would "add unnecessary complexity" and create inconsistency (BC19N). The IASB also confirmed that subsidiaries may qualify even if the parent does not (BC19Q).	We note that while the IASB considered the concerns raised, they intentionally retained the broader eligibility and did not modify the scope. **We will monitor whether there are group consolidation issues around the fair value option as NZ IFRS 18 is adopted and consider any further actions if significant concerns are identified.**
3	**Interaction with application guidance in IFRS 18** The NZASB raised the risk of confusion for entities that only hold associates/JVs and are not required to assess main business activity.	**IASB added some clarifications to address this risk but did not add further guidance.** The IASB clarified in BC19P–BC19R how IFRS 18 interacts with the fair value option but did not provide additional application guidance. The IASB reiterated that classification of income/expenses still depends on IFRS 18 paragraphs 53 and 55, and that the main business activity assessment is made at the reporting entity level (BC19R).	We note the IASB considers existing IFRS 18 guidance sufficient and does not intend to expand application guidance. **We will monitor whether there are implementation issues using the fair value option as NZ IFRS 18 is adopted and consider any further actions if significant concerns are identified.**

Consistency with Australian Accounting Standards

10. We note the AASB will incorporate the relevant amendments to the fair value option into the Australian accounting standards to maintain alignment with IFRS Accounting Standards.

Due process

11. The XRB published the IASB ED on our website when it was issued and notified New Zealand stakeholders of these proposals. The NZASB did not receive any comment letters from New Zealand constituents during the consultation period. The NZASB submitted their comment on the ED in April 2026 which were informed from XRB staff views and feedback obtained from the Accounting Technical Reference Group (TRG).

12. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the ED and concluded that the applicable due process steps had been completed. The final proposals in the amending standard are similar to the proposals in the ED, with some additional explanations included in the Basis for Conclusions to acknowledge and explain the IASB's rationale in response to the concerns raised in the NZASB's comment letter.

13. As such, the due process followed by the NZASB complied with the due process requirements established by the XRB Board, followed international processes where applicable and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

14. In accordance with section 22(2) of the Financial Reporting Act 2013 we have considered whether the amending standard is likely to require the disclosure of personal information. In our view the amending standard does not include requirements that would result in the disclosure of personal information, and therefore no consultation with the Privacy Commissioner is required.

Commencement and application

15. Section 28 of the Financial Reporting Act states that the accounting periods in relation to which a standard or amendment commence to apply "must not be accounting periods or interim accounting periods that have ended or that end before the standard, authoritative notice, amendment, or revocation takes effect". Furthermore, the Legislation Act 2019 does not allow legislation to have retrospective effect in New Zealand.

16. We have considered whether any modifications are needed to ensure consistency with the abovementioned legislative restrictions.

Mandatory date

17. *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)* will be applicable to New Zealand for-profit entities for annual reporting **periods beginning on or after 1 January 2027 –** with earlier application permitted for accounting periods that begin before this date, but which do not end before it takes effect (standards take effect on the 28th day after gazetting).

18. This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

19. Modifications have been made to the commencement data paragraphs within the standard to ensure these comply with the Parliamentary Counsel Office's (PCO's) best practice guidelines around the commencement dates, and the above requirements.

Early Adoption consideration

20. The amendments within *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)* should only be applied by entities that also apply *NZ IFRS 18 Presentation and Disclosure in Financial Statements* at the same time.

21. As such early adoption wording has been modified to ensure that this is only adopted by entities who apply both NZ IFRS 18 and these amendments standard at the same time.

Statement of Performance Expectations

22. The XRB has committed in the 2026/27 Statement of Performance Expectations to issue all relevant international standards in line with the XRB's convergence and harmonisation policy, with those standards being issued a minimum of 6–12 months before the effective date, depending on their significance.

23. The IASB released *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to IAS 28)* on 26 June 2026, with an effective date of 1 January 2027. The IASB chose this effective date to align with the effective date of IFRS 18, as the amendments are intended to assist entities when they transition to IFRS 18.

24. The XRB expects to issue the standard in late August 2026, about four months before it applies on 1 January 2027. While this is less than the minimum six-month period referred to in the XRB's 2026/27 Statement of Performance Expectations, the NZASB considers the timeframe sufficient because the amendments are narrow in scope and clarify existing requirements.

25. We consider the effective date of 1 January 2027 to be appropriate for New Zealand because it will ensure that NZ IFRS Accounting Standards remain aligned with IFRS Accounting Standards and will allow Tier 1 for-profit entities to continue to assert compliance with IFRS Accounting Standards.

26. We do not consider that New Zealand stakeholders will require significant time or effort to understand these amendments, given they are targeted clarifications to existing requirements. The shorter four-month period before the effective date is therefore not expected to affect entities' ability to implement the standard effectively.

XRB signing memorandum

27. As per the XRB Board's delegation to the New Zealand Accounting Standards Board, the delegation is subject to the requirements of the Terms of Reference for the NZASB issued by the XRB Board.

28. We consider that all the requirements within the Terms of Reference have been met as explained above, and that the signing memorandum to the Chair of the XRB Board seeking approval to issue *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)* should be signed by the Chair of the NZASB (refer to **Agenda Item 9.1c**).

Questions for Board:

Q1. Does the Board **APPROVE** for issue *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28) (***Agenda Item 9.1b***)*?

Q2. Does the Board **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board, requesting approval to issue the amending standard (**Agenda Item 9.1c**) *(subject to the Chair of the NZASB's final approval of any further updates arising from legal advice)*?

Consistency Accountability Statement (CAS) assessment

29. All standards issued by the XRB after 1 July 2026 are required to comply with the Regulatory Standards Act 2025 (**RSA**). The RSA requires the Chief Executive to sign a Consistency Accountability Statement (CAS) which:
    - Confirms that the XRB has reviewed an authoritative notice or standard and its process for developing it, for consistency with the principles of responsible regulation in section 9 of the Regulatory Standards Act 2025; and
    - Summarises any inconsistency with the principles identified in the review, or if there are no inconsistencies with the principles of responsible regulation, then stating that fact.
30. The RSA also requires the explanatory note to a standard, authoritative notice or amendment to include or contain a link to the CAS and a statement from the XRB Board (or a technical board acting under delegation) briefly explaining the reasons for any inconsistency with the principles identified in the CAS.
31. The draft standard includes a section within the explanatory note to reference through to the CAS which will be published on the XRB's website at the following link (when available).
32. We have assessed *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*, and the process for developing it, for consistency with the principles of responsible regulation as set out in section 9 of the Regulatory Standards Act 2025. This assessment identified no inconsistencies with the principles of responsible regulation. Our evaluation and conclusion are outlined in the attached memorandum (**Agenda Item 9.1d**).

Questions for Board:

Q3. Does the Board **APPROVE** the Consistency Accountability Statement memorandum (**Agenda Item 9.1d**), which will be used to support the Chief Executive's assertion in the CAS that there are no inconsistencies with the principles of responsible regulation for this standard *(subject to the Chair of the NZASB's final approval of any further updates arising from legal advice)*?

EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

XRB 2026/61

This secondary legislation is administered by the External Reporting Board. For more information please see:

Website: www.xrb.govt.nz

Contact phone: +64 4 550 2030

Contact address: Level 6/154 Featherston St, Wellington, 6011

This standard was published in the *Gazette* on 20 August 2026 and takes effect on 17 September 2026. There is an explanatory note at the end of this standard that includes an explanation of how and from when this standard operates

Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)

This standard is issued under section 12(a) of the Financial Reporting Act 2013 by the New Zealand Accounting Standards Board:

(a) acting under delegated authority of the External Reporting Board (given in accordance with section 73 of the Crown Entities Act 2004); and

(b) after complying with section 22 of the Financial Reporting Act 2013.

CONTENTS

From page

Title

0.1 This standard is the *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*.

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

Principal standard

0.3 This standard amends the New Zealand International Accounting Standard 28 *Investments in Associates and Joint Ventures* **(NZ IAS 28)**.

How amendments are made

0.4 In this standard, text in the principal standard is deleted or inserted as follows:

(a) text that is shown as ~~struck out~~ is deleted from the stated provision of the principal standard

(b) text that is shown as underlined is inserted into the provision, or is inserted as a new provision, of the principal standard

Any other text included in this standard is only for the purposes of identifying these amendments within the principal standard.

Application

0.5 The accounting periods in relation to which this standard commences to apply are:

(a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.

(b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **1 January 2027**.

0.6 In paragraph 0.5:

Early adopter means a reporting entity that is an early adopter under NZ IFRS 18 *Presentation and Disclosure in Financial Statements.*

Early adoption accounting period means an accounting period that is an early adoption accounting period under NZ IFRS 18 *Presentation and Disclosure in Financial Statements.*

Amendments to NZ IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs 18 and 19 amended

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, ~~or a~~ mutual fund, unit trust or ~~and~~ similar entity ~~entities including investment-linked insurance funds~~, the entity may elect to measure that investment at fair value through profit or loss in accordance with NZ IFRS 9. Similar entities include entities that have a main business activity of investing in particular types of assets (see paragraph 49(a) of NZ IFRS 18). ~~An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features.~~ An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. ~~(See NZ IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)~~

19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, ~~or a~~ mutual fund, unit trust or ~~and~~ similar entity ~~entities including investment-linked insurance funds~~, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with NZ IFRS 9 regardless of whether the venture capital organisation, ~~or the~~ mutual fund, unit trust or ~~and~~ similar entity ~~entities including investment-linked insurance funds,~~ has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held

through a venture capital organisation, ~~or a~~ mutual fund, unit trust or ~~and~~ similar entity ~~entities including investment-linked insurance funds~~.

Paragraph 45M added

45M *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*, issued in August 2026, amended paragraphs 18 and 19 (the **2026 amendments**). An entity shall apply the 2026 amendments in accordance with paragraph C7 of NZ IFRS 18 when it applies NZ IFRS 18. However, if an entity has elected to apply NZ IFRS 18 for an earlier period in accordance with paragraph C1 of NZ IFRS 18, and that period begins before the 2026 amendments take effect, the entity shall apply the 2026 amendments, in accordance with paragraph C7 of NZ IFRS 18, for the first reporting period ending on or after the 2026 amendments take effect.

Issued at Wellington on 17 August 2026

Dr Carolyn Cordery

Chair

New Zealand Accounting Standards Board acting under delegated authority of the External Reporting Board

EXPLANATORY NOTE AND OTHER INFORMATION

This note and other information is not part of the standard

Explanatory note

This standard is the *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)*.

It makes amendments to the principal standard NZ IAS 28 *Investments in Associates and Joint Ventures* by amending the scope of entities that are eligible to measure investments in associates and joint ventures at fair value through profit or loss in accordance with NZ IFRS 9 *Financial Instruments* (the fair value option).

This standard applies to the accounting periods in relation to which NZ IFRS 18 applies (including for early adopters).

The paragraph numbering within this Amendment Standard refers to the paragraph numbering of the Principal Standard as issued. The footnote numbering within this Amendment Standard may be adjusted consecutively rather than referring to the footnote numbering of the Principal Standard as issued. Accordingly, some paragraph and footnote numbering may not align with the compilation of the standard as published from time to time by the XRB on its website.

This standard was issued by the New Zealand Accounting Standards Board acting under delegated authority of the External Reporting Board.

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Consistency with principles of responsible regulation

The External Reporting Board provides the following document relating to its review of this secondary legislation, and its process for developing it, for consistency with the principles of responsible regulation under the Regulatory Standards Act 2025:

- A consistency accountability statement on 17 August 2026:
- A copy of this document can be found at https://www.xrb.govt.nz/about-xrb/legislation/consistency-accountability-statements/

The External Reporting Board considers that a statement from the maker under section 14(1)(b) of the Regulatory Standards Act 2025 is not required for this secondary legislation.

Minimum Legislative Information

This standard is secondary legislation published under the Legislation Act 2019.

Title	Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Amendments to NZ IAS 28)
Principal or amendment	Amendment
Consolidated version	No
Empowering Act and provisions	Section 12(a) of the Financial Reporting Act 2013
Replacement empowering Act and provision	
Maker name	New Zealand Accounting Standards Board acting under delegated authority of the External Reporting Board
Administering agency	External Reporting Board
Date made	17 August 2026
Publication date	20 August 2026
Notification date	20 August 2026
Commencement date	17 September 2026
End date	
Consolidation as at date	
Related instruments (unofficial XRB consolidation)	NZ IAS 28 *Investments in Associates and Joint Ventures*

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	6 August 2026
Subject:	**IPSASB Presentation of Financial Statements – approval of comment letter**
Date:	24 July 2026
Prepared by:	Tereza Bublikova and Gali Slyuzberg
Through:	Michelle Lombaard

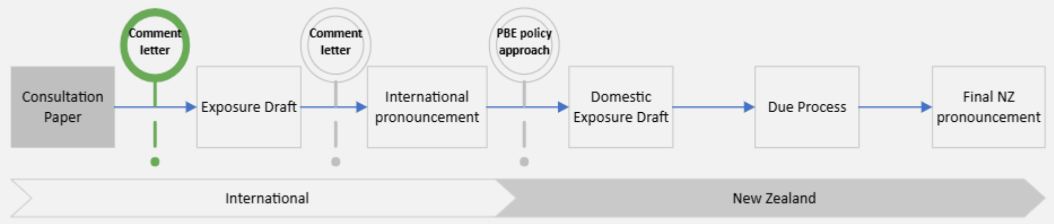
☒ **Action Required** ☐ **For Information Purposes Only**

COVER SHEET

Project overview

Project purpose	• IPSASB [per project brief]: To enhance communication of financial information by replacing IPSAS 1 *Presentation of Financial Statements* – to help public sector entities communicate their financial information better for accountability purposes and to the decision-makers that use this information. • XRB: To consider the project direction proposed by the IPSASB for this project, and to consider the effects this might have in the NZ context. To share NZ views by commenting on the IPSASB Consultation Paper (CP) *Presentation of Financial Statements,* with the objective of achieving improvements in the presentation and disclosure of information in NZ PBE financial statements.
Cost/benefit considerations	Our cost-benefit considerations were outlined in the NZASB February 2026 papers (see pages 144-145) and June 2026 papers (see pages 37-38). Feedback received since NZASB's June 2026 broadly agreed with those considerations.
Project priority	**Medium** • The IPSASB's proposed new standard is aligned with many aspects of IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 is a significant new for-profit standard, and the IPSASB's project could similarly have a significant impact on the PBE sector. Considering that PBE Standards are primarily based on IPSAS, there is benefit in seeking to influence the direction of this project from a NZ perspective. • While we are not aware of major issues with the current requirements in PBE IPSAS 1 *Presentation of Financial Reports* that need urgent resolution, the structured approach and enhanced guidance on grouping of information in IFRS 18 could be helpful to users of NZ PBEs' financial reports. • This IPSASB project is currently at CP stage and will have an Exposure Draft (ED) stage, so a final IPSAS is not expected until late 2027 or 2028. However, considering that presentation and disclosure are important aspects of reporting, it is useful to start influencing the direction of this project early.

Overview of agenda item

Project status	
Board action required	**Low complexity** **NOTE** the feedback received and **APPROVE** the draft comment letter for submission to the IPSASB.

Purpose[1]

1. The purpose of this memo is to seek the Board's approval of our draft comment letter on the IPSASB Consultation Paper (CP) *Presentation of Financial Statements*.

Recommendations

2. We recommend that the Board:

   (a) **NOTE** the feedback received from stakeholders on the IPSASB CP and our draft comment letter; and

   (b) **APPROVE** the updated draft comment letter for submission to the IPSASB, subject to any changes being finalised by the NZASB Chair.

Structure of this memo

3. The remaining sections of this memo are:

   (a) Background

   (b) Outreach activities

   (c) Feedback received

   (d) Draft comment letter

   (e) Next steps

   (f) Attachments

Background

4. The IPSASB issued the CP *Presentation of Financial Statements*, together with an Illustrative Exposure Draft (Illustrative ED), in April 2026. The CP proposes to introduce a new standard to replace IPSAS 1 *Presentation of Financial Statements* – to enhance the communication effectiveness of public sector financial statements.

[1] This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

5. The IPSASB's preliminary view is that the new standard should be largely aligned with IFRS 18 *Presentation and Disclosure in Financial Statements*, issued by the IASB in 2024 – with modifications to reflect the public sector context. In summary, the IPSASB's proposals include:

   (a) **New required categories and subtotal in the statement of financial performance:** New categories: operating, investing and financing. New subtotal: operating surplus or deficit.

   (b) **Enhanced guidance on the grouping of information:** Including requirements on aggregation and disaggregation of information in the primary financial statements and in the notes, and the roles of the primary financial statements and notes.

   (c) **No requirements on management-defined performance measures (MPMs):** The IPSASB does not propose to introduce the IFRS 18 disclosure requirements on MPMs into IPSAS, nor to adapt MPMs requirements for the public sector.

   For more information on the IPSASB proposals, refer to the NZASB June 2026 paper.

6. The NZASB agreed to comment on the CP.

7. At its June 2026 meeting, the NZASB provided feedback on the draft comment letter that was informed by staff's research and preliminary discussions with stakeholders. We reflected the Board's feedback in the draft comment letter[2] and published the updated draft letter on our website on 18 June 2026.

8. In summary, our draft comment letter noted the following key preliminary views:

   (a) We support updating IPSAS 1 to reflect changes to the Conceptual Framework and useful developments in presentation and disclosure requirements. In particular, we support the proposed enhancements relating to aggregation and disaggregation of information, and clarifications about the respective roles of the primary financial statements and notes.

   (b) However, we are not yet convinced that the CP has demonstrated a sufficiently strong basis for introducing IFRS 18-based categories and a required subtotal of operating surplus or deficit in the public sector and has not explained why the anticipated benefits would exceed the implementation cost.

9. Comments on the CP were due to the XRB by 17 July 2026 and to the IPSASB are due by 14 September 2026.

Outreach activities

10. We have raised awareness about this consultation through the May Accounting Standards Alert and about the draft comment letter through the June Accounting Standards Alert. We also directly reached out to the representatives from the Treasury, the Audit Office, professional accounting bodies, councils (either through our PBE Working group or individually), and an iwi organisation.

11. We discussed the IPSASB proposals and our draft comment letter with the Accounting Technical Reference Group (TRG), PBE Working Group (including representatives from the Treasury, councils and the tertiary education sector), representatives from a council (outside of the PBE Working Group) and representatives of a professional accounting body – in meetings held in June and July 2026. The feedback received from these meeting participants is summarised in the section below.

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[2] Including a comment received from a Board Member shortly after the NZASB June meeting, to re-order our arguments in the response to Preliminary View (PV) 8, so that the public sector challenges are mentioned ahead of the discussion on diversity and comparability.

12. No formal submission on the XRB consultation was received at the time of writing, but we expect to receive a formal submission, which we will circulate to the Board before the meeting.

Feedback received

13. Overall, the feedback received on the draft comment letter was broadly supportive of the position taken in the XRB's response to the IPSASB Consultation Paper. In particular, participants agreed that the IPSASB has not yet demonstrated a sufficiently clear public sector problem to justify introducing IFRS 18-style operating, investing and financing categories. While some participants identified potential benefits associated with greater comparability and enhanced performance reporting, the dominant view was that the rationale for change remains unclear, and that the expected benefits may not outweigh the implementation costs for public sector entities.

14. Although participants expressed a range of views on individual proposals, those views were broadly consistent with the positions already reflected in the draft comment letter. We therefore have not amended the draft comment letter as a result of the feedback received. The detailed feedback and our considerations are set out below.

Diversity of presentation in New Zealand

15. Participants questioned whether the diversity in financial statement presentation observed internationally is a significant issue in the New Zealand public sector. It was noted that model financial statements produced by the Audit Office have been widely adopted across government departments and Crown entities, resulting in relatively consistent reporting practices and presentation formats. Some participants therefore considered that New Zealand may not face the same presentation consistency challenges that prompted the IASB's IFRS 18 project.

16. However, PBE Working Group participants also noted that presentation practices are not as uniform as might be expected. Drawing on experience with local authority financial statements, one participant observed considerable variation in the ordering and grouping of assets, liabilities and equity, suggesting there may still be space to improve readability and comparability. However, the participant did not indicate that the lack of comparability in terms of the presentation of the statement of financial position is causing challenges to users or preparers, and did not mention diversity in the presentation of the statement of financial performance (which is where the IPSASB is proposing to introduce specific categories).

17. One PBE Working Group participant noted that New Zealand ministers are interested in how New Zealand's financial performance and position compare with other jurisdictions, particularly Australia, Singapore and other countries of a similar size. However, meaningful comparison is difficult because relatively few jurisdictions produce whole-of-government financial statements that are accrual-based and based on IPSAS (or IFRS) principles. As a result, that participant suggested there may be greater appetite for approaches that connect general purpose financial reporting with statistical reporting frameworks, noting that in Australia, the standard AASB 1049 *Whole of Government and General Government Sector Financial Reporting* is based on such an approach.

Staff response

18. One participant suggested that there may be space to improve readability and comparability of presenting the Statement of Financial Position. However, in our draft comment letter we supported the IPSASB PV 7, which proposes not to prescribe a specific order or format for presenting the Statement of Financial Position. As we have not received similar feedback from

other stakeholders, and as the stakeholder who provided this feedback did not mention significant concerns resulting from the lack of comparability, we have not made any changes to the draft comment letter.

19. Regarding the comment on considering approaches that connect GAAP reporting with statistical reporting frameworks: We acknowledge that such an approach could be useful at a whole-of-government level. However, we note that the recognition and measurement requirements that underpin statistical reporting frameworks (e.g. the International Monetary Fund's *Government Financial Statistics Manual 2014* and jurisdictional equivalents) are different to those in IPSAS. While AASB 1049 includes presentation requirements based on statistical reporting without changing IFRS-based recognition and measurement principles, we note that this standard applies only to governments (i.e. the Commonwealth Government and State and Territory Governments). We consider that statistical presentation requirements based on statistical reporting frameworks are unlikely to be practical for most public sector entities, because such frameworks are developed with whole-of-government reporting in mind. Therefore, we have not proposed this approach in our comment letter.

Proposed IFRS 18-based categories in the statement of financial performance

20. PBE Working Group and TRG meeting participants, as well as representatives of the council we met with separately, identified several challenges with applying the proposed operating, investing and financing categories in a public sector context. They noted:

    - That the distinction between operating and investing activities may be difficult to apply and may not result in useful information in sectors such as local government, where investments are often undertaken to achieve strategic or community outcomes rather than purely financial returns.
    - Questions and challenges relating to the classification of revenue and expenses arising from interest-free loans.
    - Questions on the classification of interest revenue on cash or term deposits where the use of the funds is restricted to a specific project relating to service delivery – whether the interest revenue should be classified in the operating or investing category.
    - Questions on how the proposed categorisation requirements would apply to transactions between different reserves within an entity – for example, interest on 'internal borrowings' where councils fund projects by borrowing from their own reserves, and transfers between restricted and unrestricted reserves for PBEs that present such transfers on the 'face' of the statement of financial performance (We understand that internal interest charges currently eliminate on consolidation, and the proposals would not change this).
    - For councils, classification challenges could arise in situations where a council-controlled organisation's main operating activities are different to those of the consolidated group (we acknowledge that this challenge can also arise for for-profit entities under NZ IFRS 18).

21. One PBE Working Group participant saw merit in the proposed categorisation approach because of its conceptual alignment with the statement of cash flows – although it was also noted at this meeting that this alignment is not perfect.

22. The same participant also noted that separating operating performance from financing effects could provide useful information in some circumstances. For example, this distinction could improve benchmarking and comparisons between tertiary education institutions by separating management's operating performance from differences arising from capital structure or historical financing decisions. For example, entities with significant historical debt may report

worse results compare to otherwise similar entities holding substantial cash reserves, even where underlying operational performance is similar.

23. A stakeholder from a council noted that the current presentation requirements in PBE IPSAS 1 serve well in terms of presenting how a council is operating, and also integrates well with the Funding Impact Statements that councils are required to prepare by legislation. There is a question as to whether the proposed new categories would cause changes to information in Funding Impact Statements that refers to the financial statements.

24. A participant from a professional body noted that in Australia, the AASB had proposed an optional approach to the new IFRS 18-based categories for public sector entities. This means that the Australian governments will continue to present their whole-of-government financial statements in accordance with AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, and other NFP public sector entities (except for universities) would be permitted to continue using current presentation formats, e.g. those set out by Treasuries for government departments and by the Office of Local Government for councils. The participant noted that this approach has been well received in Australia and suggested, as a preliminary view, that the IPSASB could consider a similar approach.

Staff response

25. While some participants identified potential benefits of the proposed categories, the dominant view was consistent with the draft comment letter: the problem to be solved by the proposed change remains unclear and the expected benefits may not justify the implementation costs.

26. Paragraph 30 of the draft comment letter already highlights several application challenges that could arise in the public sector in applying the proposed categories. As our primary concern is that the IPSASB has not clearly articulated the problem it is seeking to address, we decided not to add further examples of implementation challenges based on the feedback mentioned above, and have not amended the draft comment letter.

27. In relation to the proposed optional approach (i.e. to introduce IFRS 18-based categories but to make their application optional): We acknowledge that this approach may address some implementation concerns. However, it also presents challenges. For example, entities choosing not to apply the IFRS 18 categories may continue to report subtotals such as "operating profit", which may not be comparable with the IFRS 18-defined operating profit subtotal. We therefore decided not to propose this approach. In our view, it is premature to propose alternative solutions until the IPSASB has clearly demonstrated the issue that needs to be addressed.

Management Performance Measures (MPMs)

28. Representatives of councils noted that primary legislation already requires councils to report a range of prescribed financial measures. These measures are calculated using relatively prescriptive requirements under the legislation and are subject to audit (they are included in the council's annual report), leading to increased comparability across councils. Some of those measures could meet the definition of MPMs.

29. Representatives of another council noted that, if disclosure requirements for MPMs or other non-GAAP measures are introduced, there should be flexibility as to whether these are disclosed in the financial statements or elsewhere – noting that important non-GAAP measures are already included and explained in councils' annual reports alongside the financial statements (and as noted above, are calculated based on legislative requirements).

30. PBE Working Group participants considered that supplementary 'non-GAAP' performance measures can provide users with useful insights into an entity's underlying financial

performance, particularly during periods of significant volatility, provided the measures are applied consistently over time and clearly explain the drivers of volatility.

31. One PBE Working Group participant noted that additional disclosures for certain performance measures could be beneficial provided they do not introduce excessive complexity. Net debt was cited as an example of a measure where additional disclosures would be useful, particularly where gross debt and net debt differ significantly.

32. A few participants highlighted, that alternative performance measures have been a big issue in the for-profit space for a long time, because they are not adequately disclosed and are not comparable between entities.

33. Overall, some TRG and PBE Working Group participants acknowledged potential benefits in guidance on alternative performance measures, but no clear consensus emerged on how such measures should be addressed in standards and for what measures should disclosure be required in standards.

34. A stakeholder from a professional body noted that in the Australian public sector, there is little evidence of significant use of IFRS 18-defined MPMs or demand for MPM-like disclosure requirements (and the AASB had proposed to make the IFRS 18 MPM requirements optional for public sector entities). The stakeholder also observed that IFRS 18 MPM requirements are creating implementation challenges in the for-profit sector, as evidenced by the queries received by the IFRIC. Therefore, the IPSASB's decision not to pursue MPM requirements seems reasonable.

Staff response

35. Feedback from New Zealand participants (including the preliminary feedback summarised in the NZASB June 2026 paper) indicates that some guidance and additional disclosure requirements about 'non-GAAP' measures could provide useful information to users. However, some such measures are already covered by specific disclosure requirements in primary legislation (e.g. for councils). Also, no consensus emerged among stakeholders as to what measures should be covered by disclosure requirements in standards. In addition, the feedback relating to the Australian experience suggests limited appetite in Australia for MPM requirements in the public sector, with concerns that identifying MPMs and similar measures could be difficult and costly.

36. On balance, we consider that the draft comment letter continues to reflect an appropriate position. We therefore have not amended the draft comment letter and continue to support the view that the IPSASB should develop disclosure requirements for MPMs and/or other financial performance or financial position measures only if it can identify an approach that minimises the costs of identifying those measures.

Draft comment letter

37. The updated draft comment letter is attached as Agenda Item 11.1b. As noted above, having considered the feedback received from stakeholders, we did not make any substantive changes to our recommendations in the comment letter compared to the draft version previously considered by the Board. However, we have taken the opportunity to:

    (a) Strengthen the tone of our concerns with the proposed introduction of the IFRS 18-based categories in the cover letter and our response to PV 1;

    (b) Add examples of public sector measures that may meet the definition of MPMs in our response to PVs 15 and 16 (based on our research discussed at the NZASB June meeting);

(c) Remove certain details that were useful during consultation on the draft comment letter but are not necessary for the final submission to the IPSASB (e.g. reducing the details relating to the history of adopting OCI in New Zealand in the response to PV 11, and reducing details about IASB amendments in the response to PV 14); and

(d) Make a number of editorial changes to:

- Improve readability; and
- Improve consistency of terminology (e.g. replacing all reference to 'private sector' with 'for-profit sector').

These changes are highlighted in green in the draft comment letter (agenda item 11.1b).

Questions for the Board
Q1. Does the Board **APPROVE** the draft comment letter, subject to any changes agreed at this meeting and any editorial changes being approved by the Chair of the NZASB?

Next steps

38. We will incorporate any comments raised at this meeting (if any) into the draft comment letter and seek final approval of the comment letter from the Chair of the NZASB.

39. The final comment letter will be submitted before the IPSASB deadline of 14 September 2026.

Attachments

Agenda Item 11.1b – Draft comment letter to IPSASB CP *Presentation of Financial Statements*

The following agenda papers are attached via links:

- **Agenda Item 11.1c** IPSASB CP Presentation of Financial Statements
- **Agenda Item 11.1d** IPSASB Illustrative ED Presentation of Financial Statements

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

XX August 2026

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross

Consultation Paper, *Presentation of Financial Statements*

Thank you for the opportunity to comment on the Consultation Paper, *Presentation of Financial Statements* (the CP). The CP has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by consultation with accounting practitioners working for and with public sector entities.

We support updating IPSAS 1 *Presentation of Financial Statements* to reflect changes to the IPSASB Conceptual Framework and useful developments in presentation and disclosure requirements. In particular, we support the proposed enhancements relating to aggregation and disaggregation of information, and clarifications about the respective roles of the primary financial statements and notes.

However, in our view, the CP has not established a sufficiently strong basis for introducing IFRS 18 *Presentation and Disclosure in Financial Statements* based categories and a required subtotal of operating surplus or deficit in public sector financial statements. While the CP notes diversity in current presentation practices, it does not clearly identify the nature or significance of any resulting concerns from primary users or preparers, nor does it explain why the anticipated benefits would exceed the expected implementation costs. In our view, further articulation of the rationale would be helpful before these proposals are progressed.

Our detailed comments are included in Appendix attached to this letter. If you have any queries or require clarification of any matters in this letter, please contact accounting@xrb.govt.nz.

Yours sincerely

Dr Carolyn Cordery
Chair, New Zealand Accounting Standards Board

Appendix

Response to consultation questions

Preliminary View 1—Chapter 1: Development of New Presentation Standard
The IPSASB's Preliminary View is that the development of a new IPSAS Standard to replace IPSAS 1, *Presentation of Financial Statements* should consider IFRS 18 *Presentation and Disclosure in Financial Statements*, with appropriate adaptations to reflect the objectives of financial reporting by public sector entities. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed in the development approach.

1. In general, as noted in our comment letter on the IPSASB's 2025 Work Programme Consultation, we consider it important to have alignment between IPSAS Standards and IFRS Accounting Standards where transactions are the same or similar in the public and for-profit sectors.

   (a) Such alignment is particularly important for jurisdictions such as New Zealand, where several large and complex "mixed group" entities operate across both the public and for-profit sectors and are required to prepare consolidated financial statements, while applying both IPSAS- and IFRS-based requirements across different entities within the group.

   (b) Such alignment is also important in smaller jurisdictions like New Zealand, where the number of accountants is relatively limited and differences between accounting standards for the for-profit and public sector can impact the availability of accountants and auditors for public sector entities.

2. We agree that there is a need to update IPSAS 1, considering that it currently does not reflect certain changes to the IPSASB Conceptual Framework and international developments relating to IFRS Accounting Standards in the for-profit sector.

3. We support several of the IPSASB's proposals in the CP. In particular, we support:

   (a) the proposals on aggregation and disaggregation of information in the primary financial statements and notes as they would be useful for public sector entities by encouraging a clearer focus on primary users' information needs; and

   (b) the proposed updates to align definitions with the Conceptual Framework and clarifications to disclosure requirements. Refer to our response to Preliminary View (PV) 2, 4 and 14 below.

4. However, a key proposal in the CP is to require IFRS 18-based categories and a subtotal of 'operating surplus or deficit' within public sector financial statements. Based on feedback received on the on-going IFRS 18 implementation experience in the for-profit sector, we expect this proposal would require significant effort and result in significant costs for public sector entities. Feedback received also highlighted concerns about the practical application of the

proposed categorisation requirements in the public sector and the usefulness of the resulting information to primary users.

5. Although the IPSASB has identified inconsistencies in the structure of the statement of financial performance among public sector entities, the CP does not clearly explain whether that inconsistency is causing significant problems for primary users or preparers in the public sector. Without a clearer articulation of the problem to be solved and why the benefits would outweigh the costs, we are unable to support introducing these categories into IPSAS. Refer to our response to PV 8 for more detail.

6. In light of the above, we consider that the benefits of the CP proposals that we support (as noted in paragraphs 2 and 3 above) could be achieved by updating the existing IPSAS 1, rather than issuing a new IPSAS Standard to replace IPSAS 1.

Preliminary View 2—Chapter 2: General Presentation Requirements
The IPSASB's Preliminary View is to continue providing definitions on financial statement elements (aligned with the IPSASB Conceptual Framework and IFRS 18) in the new IPSAS Standard, and to provide other definitions that support the understanding and application of presentation requirements. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons, and clearly explain what you consider should be changed from a public-sector perspective.

7. We support the IPSASB's Preliminary View to continue providing definitions of financial statement elements in the new IPSAS Standard, aligned with the IPSASB Conceptual Framework and IFRS 18, and to include additional definitions that support the understanding and application of presentation requirements.

8. We note that definitions of financial statement elements (such as assets, liabilities, revenue, expenses, and net assets/equity) are currently included in both IPSAS 1 and the Conceptual Framework. In our view, this duplication is helpful in practice. While the Conceptual Framework provides the underlying principles of general purpose financial reporting, it may not always be referred to directly by preparers when applying standards. Retaining these definitions within IPSAS Standards therefore promotes accessibility and supports consistent application.

9. We also consider it is important that definitions within IPSAS Standards are aligned with those in the Conceptual Framework. Consistency across the IPSASB literature is critical to avoiding confusion and ensuring that preparers apply concepts in a coherent manner. We therefore support the IPSASB's proposal to amend existing definitions in IPSAS 1 so that they align with the Conceptual Framework.

Preliminary View 3—Chapter 2: General Presentation Requirements
The IPSASB's Preliminary View is to retain the existing requirements regarding comparative information, and to add the requirement for an additional Statement of Financial Position at the beginning of the preceding period when previously reported information has been materially impacted by a restatement or reclassification into IPSAS Standards, aligned with IFRS 18 requirements. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed from a public-sector perspective.

10. We support the IPSASB's Preliminary View to retain the existing requirements regarding comparative information. We agree that the current requirements in IPSAS 1 provide useful and appropriate information for users.

11. However, we do not support the proposal to require an additional Statement of Financial Position at the beginning of the preceding period (often referred to as a 'third balance sheet') when previously reported information has been materially impacted by a restatement or reclassification.

12. Public sector entities in New Zealand typically present multiple columns of information in their primary financial statements, including current-year actuals, prior-year actuals, and budget information. Some entities also present this information separately for the parent (controlling entity) and the consolidated group or include multiple budget comparisons. As a result, the Statement of Financial Position can already include several columns of information.

13. Introducing a requirement for a 'third balance sheet' (effectively an additional column of information) in circumstances of material restatements or reclassifications would further add to complexity of already relatively dense Statement of Financial Position. We are concerned that this could reduce the readability and understandability of the Statement of Financial Position for users, which would be contrary to the objective of enhancing communication effectiveness.

14. To address this concern, we recommend giving public sector entities the option to include the 'third balance sheet' in the notes, rather than requiring its presentation as part of the primary financial statements.

Preliminary View 4—Chapter 2: General Presentation Requirements
The IPSASB's Preliminary View regarding the other general presentation requirements is to: a) Retain existing IPSAS 1 guidance, without updates: i. The responsibility of financial statements (paragraphs 2.9-2.10); b) Retain existing IPSAS 1 guidance, with updates to align with IFRS 18 for the public sector context: i. The objective of financial statements (paragraphs 2.4-2.8); ii. The complete set financial statements (paragraphs 2.11-2.13); iii. Identification of financial statements (paragraphs 2.20-2.21); iv. Material information (paragraphs 2.33-2.34); v. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44); c) Add new guidance, aligned with IFRS 18 and the IPSASB's Conceptual Framework: i. The roles of the financial statements and notes (paragraphs 2.14-2.19); and ii. The other general presentation requirements in Table 2 (paragraphs 2.41-2.44). Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed in the development approach.

PV 4, point (a)

15. We have not identified any concerns with the existing guidance on the responsibility for financial statements. We therefore support the proposal to retain this guidance without updates.

PV 4, point (b):

16. We support the IPSASB's proposal to retain the guidance outlined in point (b), with updates aligned to IFRS 18. We consider it beneficial to align this guidance with current international thinking and recent developments, as this will help ensure the requirements remain relevant and consistent with evolving international best practice.

PV 4, point (c):

17. We are not aware of any significant concerns regarding the proposed guidance clarifying the roles of the financial statements and notes.

18. Feedback received indicates support for incorporating IFRS 18-based guidance on aggregation and disaggregation of information in the primary financial statements and notes. Enhanced principles in this area are expected to improve the clarity and usefulness of financial information presented (see also paragraph 3 above).

19. We are not aware of any concerns regarding the proposed IFRS 18-aligned guidance on the accrual basis of accounting and consider this guidance to be reasonable and appropriate in the public sector context.

Preliminary View 5—Chapter 3: Statement of Financial Position
The IPSASB's Preliminary View is to retain: a) The current/non-current approach as the general approach for classifying assets and liabilities on the face of the Statement of Financial Position; b) The order of liquidity approach as a permitted approach on an exception basis; and c) The mixed approach, to allow some assets and liabilities to be presented using the current/non-current classification, and others are presented in order of liquidity. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed regarding the classification of assets and liabilities on the Statement of Financial Position.

20. In principle, we support the IPSASB's Preliminary View to retain the existing approaches to the classification and presentation of assets and liabilities on the face of the Statement of Financial Position.

21. In our view, continuing to permit the order of liquidity approach as an alternative is reasonable, particularly for entities for which liquidity information provides more relevant information to users. We are not aware of significant concerns in practice regarding the use of a mixed presentation approach. Accordingly, we support retaining the flexibility to apply a mixed approach where it results in more useful information.

22. However, we note that paragraph 116 of the IPSASB's Illustrative Exposure Draft (Illustrative ED) states that when the liquidity approach is applied, "*an entity shall present all assets and liabilities in order of liquidity*." This wording can be interpreted in a way that all line items must be presented consistently using the liquidity basis.

23. In contrast, paragraph AG97 of the Illustrative ED clearly indicates that a mixed presentation approach is permitted. This reflects the IPSASB's stated intention in PV 5(c) and is consistent with existing practice under IPSAS 1.

24. To avoid confusion, we recommend that the IPSASB:

    (a) amend paragraph 116 to explicitly acknowledge that a mixed presentation approach is permitted; or

    (b) alternatively, consistent with the current approach in IPSAS 1, move the guidance in paragraph AG97 into the core text of the proposed standard.

Preliminary View 6—Chapter 3: Statement of Financial Position
The IPSASB's Preliminary View is that the specific line items required in IPSAS 1 should be carried forward, with enhancements limited to adding a new line for goodwill (to align with IFRS 18). Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what line items should be added or removed from the list provided in Table 3.

25. We agree with the IPSASB's Preliminary View that the specific line items currently required in IPSAS 1 should be retained, with enhancements limited to the addition of a new line item for goodwill to align with IFRS 18.

26. We observe that, in New Zealand, some public sector entities already present goodwill as a separate line item in the Statement of Financial Position. The proposed new line item would largely formalise existing practice for those entities and is unlikely to give rise to significant implementation challenges.

Preliminary View 7—Chapter 3: Statement of Financial Position
The IPSASB's Preliminary View is that the new IPSAS Standard should retain IPSAS 1 requirements to: a) Not prescribe a specific structure (i.e., order or format) for presenting the Statement of Financial Position; and b) Not require the presentation of specific subtotals on the Statement of Financial Position. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed regarding the structure and the presentation of specific subtotals.

27. We have not identified any concerns with the existing requirements, which do not prescribe a specific structure (i.e. order or format) for presenting the Statement of Financial Position and do not require the presentation of specific subtotals. We therefore agree with the IPSASB's preliminary view.

Preliminary View 8—Chapter 4: Statement of Financial Performance
The IPSASB's Preliminary View is to present revenue and expense items recognized in surplus or deficit in categories on the Statement of Financial Performance. The categorization requirements are aligned with IFRS 18 requirements, with additional public sector guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed (for example, if you prefer a specific public-sector specific categorization, such as those considered in paragraph 4.30, please explain why it would meet the criteria in paragraph 4.29).

28. We do not support this proposal at this stage. In our view, further work is needed before the IPSASB proceeds with IFRS 18-based categories and the related subtotal in the public sector.

29. We observe that in the for-profit sector, for some entities, the on-going effort of implementing the IFRS 18 requirements in relation to categories in the Statement of Profit or Loss required substantial judgement, systems changes and reworking of presentation decisions. Based on feedback received, we expect similar issues to arise in the public sector, with additional challenges in areas such as distinguishing between operating and investing categories, dealing with public-sector-specific transactions, and assessing the relevance of a financing category for entities funded primarily through appropriations.

30. The following examples of questions on specific aspects of the proposed IFRS 18-based categories in the public sector context may indicate challenges relating to the application of the categorisation requirements and the usefulness of the resulting information for primary users:
    (a) Questions in relation to the distinction between the investing category and operating category in the public sector context, and whether grants and funding relating to capital projects should be classified in the operating or investing category.
    (b) Calls for guidance on determining the appropriate category for public sector-specific items like service concession arrangements, which are currently not specifically discussed in the Illustrative ED.
    (c) Questions about the appropriateness of classifying revenue and expenses from investments in associates and joint ventures within the investment category – as per the proposed IFRS 18-based categorisation requirements – in situations where the investment is for the purpose of achieving the entity's service delivery objectives, such as promoting regional development, rather than generating a financial return.

31. It is not clear to us that the challenges and associated costs identified above would be sufficiently justified by benefits arising from the IFRS 18-based categories and the related subtotal.

32. In the for-profit sector, there was a clear challenge that primary users of financial statements were facing, which drove the introduction of the IFRS 18 categories and subtotals. Specifically, the IASB introduced these categories and subtotals to address *concerns from primary users of financial statements, particularly investors,* about the diversity in the presentation of the Statement of Profit or Loss. In the Basis for Conclusions (BC) of IFRS 18, paragraph BC3 notes the following (italics added for emphasis):

"Entities that applied IAS 1 often presented subtotals using the same label, but which included varying income and expenses. *Such diversity made it difficult for users of financial statements to understand and compare information*. *Comparability is important to users, particularly to buy-side investors, who typically analyse many entities in varied industries*.".

33. We acknowledge that the IPSASB has identified diversity in the presentation of the Statement of Financial Performance in the public sector, including differing uses of operating-type subtotals. However, the CP does not clearly explain whether that diversity is causing significant problems for primary users or preparers, what those problems are, or which users are affected. In our view, being clear on this is important because the strength of the case for change depends on the nature and significance of the problem being addressed.

34. Before proceeding, we encourage the IPSASB to undertake further work to demonstrate the problem to be solved, identify the users affected and their information needs with respect to the presentation of the Statement of Financial Performance, and explain clearly why the expected benefits of this proposal outweigh the implementation costs in the public sector context. The IPSASB should also consider the following:

    (a) Most changes in accounting standards give rise to both costs and benefits, but if there is no clear problem to be solved, this can shift the balance of cost/benefit considerations. Specifically, even though the IPSASB expects IFRS 18 categories to improve comparability and understandability of public sector financial statements, which is generally beneficial, this benefit may not be sufficient to outweigh the costs of implementing the new categories if the existing diversity in the presentation is not causing challenges to primary users in the public sector or to public sector entities in the first place.

    (b) While we agree that the proposed categories and subtotal could make public sector entities' Statements of Financial Performance more comparable to each other, we note that the nature of the benefit of comparability is different in the public sector compared to the for-profit sector, because the primary users in these two sectors are different and use the financial statements for different purposes. It is important to consider this difference.

        i. In the case of IFRS 18, the IASB noted that the diversity in presentation was causing concerns to buy-side investors, for whom comparability is important, as they analyse the financial statements of many companies to make decisions on whether to buy, hold or sell shares in these companies. The categories in IFRS 18 will enhance comparability to address these investors' concerns.

        ii. In the public sector space, bondholders who buy government or council bonds and entities that provide funding to governments and councils would make similar decisions based on public sector entities' financial statements, i.e. around buying, holding or selling the bonds issued by a public sector entity, and around whether to provide more funding to the public sector entity, etc. For these primary users, the benefit of comparability between the financial statements of different governments and councils is likely to be similar as for investors in the for-profit sector – although there is a question as to whether these users review similar volumes of financial statements compared to buy-side investors in the for-profit sector. We also note that individual government agencies often do not issue bonds to the public or borrow externally from parties outside of central government.

        iii. However, some other primary users of public sector financial statements, e.g. taxpayers and ratepayers, do not make 'buy/sell/hold' decisions or decisions on whether to provide funding to a public sector entity, as they do not have discretion over paying taxes or rates. They may still compare financial statements of different governments, different departments or different councils, but this would rather be to understand how well their country's government, their city council or a particular government department is performing compared to another government, council or department. This is different to buy-side investors regularly comparing large volumes of financial statements to make buy/sell/hold decisions. While we consider that comparability is still beneficial in general for public sector primary users like taxpayers and ratepayers, the extent of comparability that these users need to meet their needs may be different compared to investors in the for-profit sector, whose concerns the IASB aimed to address by introducing the IFRS 18 categories.

Preliminary View 9—Chapter 4: Statement of Financial Performance
The IPSASB's Preliminary View is to present totals and subtotals, and to permit entities to present additional subtotals, on the Statement of Financial Performance, as listed in paragraph 4.35. The total and subtotal requirements are aligned with IFRS 18 requirements, adapted for the public sector. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

35. We support retaining the requirement to present total surplus or deficit and permitting additional subtotals where they help provide a useful structured summary and are subject to appropriate discipline, e.g. being consistent from period to period.

36. However, we do not support requiring the specific subtotal of 'operating surplus or deficit' unless and until the IPSASB has established a clear basis for the related categorisation proposals. Please refer to our comments on PV 8 above.

Preliminary View 10—Chapter 4: Statement of Financial Performance
The IPSASB's Preliminary View is to maintain the minimum requirements regarding the presentation of line items on the face of the Statement of Financial Performance, with additional guidance. The minimum line item presentation requirements are aligned with IFRS 18 requirements, with additional public sector guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

37. We have not identified any concerns with the existing minimum requirements regarding the presentation of specific line items on the face of the Statement of Financial Performance, and we support the IPSASB's preliminary view to retain these requirements with additional guidance.

38. We consider that the proposed additional guidance to help entities determine whether to present additional line items in the Statement of Financial Performance, in order to provide a

more useful structured summary of its revenue and expense items, would be relevant and useful for the public sector.

39. However, regarding the guidance in paragraph AG86 of the Illustrative ED, which states that an entity may need to split an individual line item from the 'minimum requirements' between the different IFRS 18 categories, refer to our comments on the proposed categories under PV 8.

Specific Matter for Comment 1—Chapter 4: Statement of Financial Performance
The IPSASB proposes to maintain the requirements to present expenses by the nature of the expenses or by their function to the entity on the face of the Statement of Financial Performance, in alignment with IFRS 18 requirements, with additional guidance. In your view, should the new IPSAS Standard replacing IPSAS 1 permit mixed presentation, where some expense line items are presented by nature, while others are presented by function? Would mixed presentation result in a useful structured summary of those expenses for users of financial statements in your jurisdiction? Please provide the reasoning behind your view.

40. We consider that the new IPSAS Standard should permit mixed presentation, where some expense line items are presented by nature and others by function.

41. We note that the IASB permitted the mixed presentation of operating expenses in IFRS 18, despite potential effects on comparability between entities. The IASB acknowledged that prohibiting mixed presentation could, in some cases, prevent an entity from presenting useful information or from providing the most useful structured summary of operating expenses. For example, an entity may conclude that classification by function generally provides the most useful information, while some operating expenses may be difficult to allocate to functions in a non-arbitrary manner. Goodwill impairment is one example of an expense that may not be meaningfully attributable to specific functions.

42. We note that similar challenges as those noted by the IASB could also arise in the public sector. Allowing mixed presentation of expenses for public sector entities, as the IASB did in IFRS 18, would help avoid these challenges.

43. We also note that in the public sector, the group of primary users is broader than in the for-profit sector, and therefore primary users' information needs are broader than those of primary users in the for-profit sector (i.e. investors, lenders and other creditors). Therefore, for public sector entities, having the flexibility to present expenses in a way that best reflects the nature of an entity's operations and activities, may be more important than strict comparability.

44. As such, we have not found public sector–specific reasons to depart from the IASB's approach for presenting expenses in the Statement of Financial Performance and we support permitting mixed presentation in the public sector.

Preliminary View 11—Chapter 5: Statement of Changes in Net Assets/Equity
The IPSASB's Preliminary View is to maintain (1) requirements to present revenue and expense items recognized outside surplus or deficit directly in net assets/equity, on the Statement of Changes in Net Assets/Equity, and (2) requirements related to reclassification adjustments. Do you agree with the IPSASB's Preliminary View, and are there additional enhancements to these IPSAS 1 requirements the IPSASB should consider (for example, whether to enhance disclosure requirements to help users better understand the nature and composition of material revenue and expense items recognized outside of surplus or deficit)? If you do not agree, please provide your reasons and clearly explain what you consider should be changed.

45. We note that the IPSASB proposes to retain the IPSAS 1 requirements to present revenue and expense items recognised outside surplus or deficit directly in net assets/equity, and not to align with the IAS 1/IFRS 18 concept "Other Comprehensive Income" (OCI).

46. New Zealand public sector entities have been reporting OCI for many years, from when New Zealand first transitioned to IFRS-based standards. When the XRB subsequently mandated the adoption of New Zealand Public Benefit Entity (PBE) Standards (based primarily on IPSAS) for the public sector in 2014/2015, the NZASB modified the PBE equivalent of IPSAS 1 to retain the presentation of OCI. The NZASB considered feedback from constituents recommending this change to IPSAS 1, and noted that this modification continues existing practice and separates all revenue and expenses from transactions with owners in their capacity as owners.

47. In retaining the concept of OCI in New Zealand PBE Standards, the NZASB decided to re-label OCI as "other comprehensive revenue and expenses" (OCRE), as this terminology is more appropriate for the public sector context.

48. Based on our experience, we are not aware of any significant issues arising from the current OCRE requirements. The approach is well understood, consistently applied, and continues to provide useful information to users. Additionally, this alignment with the for-profit sector remains beneficial for reasons mentioned in paragraph 1 above.

49. If the IPSASB develops a new standard that does not include the concept of OCI, we expect that the XRB would continue to retain the existing OCRE presentation in New Zealand PBE Standards. This reflects the long-standing application of OCRE in New Zealand and the considerations outlined above, including the benefits of continuity of practice and alignment with the for-profit sector.

50. Notwithstanding the above, we have not formed a view on how this issue should be addressed at the international level. We recognise that different jurisdictions may have different reporting traditions and user needs, and we therefore do not express a preference as to whether the IPSASB should require or prohibit an OCI-type presentation in IPSAS Standards.

Preliminary View 12—Chapter 5: Statement of Changes in Net Assets/Equity
The IPSASB's Preliminary View is to maintain the presentation requirements regarding the Statement of Changes in Net Assets/Equity, and revise the reconciliation requirement to require the reconciliation be displayed on the face of the Statement. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

51. Overall, we support the IPSASB's Preliminary View. We consider that requiring the reconciliation between the opening and closing balance of components of net assets/equity to be presented on the face of the Statement of Changes in Net Assets/Equity, as aligned with IFRS 18, would be beneficial. In our view, such an approach would enhance the understandability of financial statements by making key movements in net assets/equity more visible and accessible to users.

52. We understand that practice in New Zealand is mixed in this area. Some public sector entities currently present reconciliations on the face of the Statement of Changes in Net Assets/Equity, while others provide this information in the notes. We consider that, for most entities that currently present the reconciliation in the notes, moving this information to the face of the primary financial statement would not be difficult to implement.

53. However, we note that certain entities—such as councils—are required to provide detailed disclosures regarding transfers to and from restricted reserves. For these entities, while we consider that high-level reconciliation information should be presented on the face of the Statement of Changes in Net Assets/Equity, we note that more detailed breakdowns would still need to be provided in the notes, to meet legislative or regulatory requirements and to ensure that users retain access to sufficiently detailed information.

Preliminary View 13—Chapter 5: Statement of Changes in Net Assets/Equity
The IPSASB's preliminary view is that guidance based on IFRIC 17 *Distribution of Non-cash Assets to Owners* should not be incorporated into the IPSAS Standards, as the relevant transactions are not prevalent in the international public sector. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

54. Based on our outreach, we are not aware of evidence that transactions within the scope of IFRIC 17 are prevalent in the New Zealand public sector. On that basis, we agree that there does not appear to be a compelling need to incorporate IFRIC 17 into IPSAS.

Preliminary View 14—Chapter 6: Disclosure of Information in the Notes
The IPSASB's Preliminary View is to retain existing IPSAS 1 requirements for the disclosure of information in the notes to the financial statements, and incorporate the IASB's amendments to IAS 1 (as presented in paragraphs 6.7 and 6.12) which would align with equivalent IFRS Accounting Standards guidance. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

55. We agree with the IPSASB's proposal to incorporate into IPSAS the IASB's 2014 amendments *Disclosure Initiative*. These IASB amendments included various clarifications to the disclosure requirements in IAS 1, including in relation to materiality, order of the notes, and presentation of additional subtotals. In New Zealand, these IASB amendments have already been incorporated into PBE IPSAS 1 *Presentation of Financial Reports*, as they were considered to be useful for New Zealand public benefit entities. We are not aware of any issues with these requirements in New Zealand.

56. We agree that an equivalent of IASB's *Disclosure of Accounting Policies* should be incorporated into IPSAS – noting that the reference to 'material' accounting policies instead of 'significant' ones seems beneficial, considering that materiality is defined in IPSAS and is a concept used throughout IPSAS.

Preliminary View 15—Chapter 6: Disclosure of Information in the Notes
The IPSASB's Preliminary View is to not incorporate the IFRS 18 definition and disclosure requirements for management-defined performance measures (MPMs) into the IPSAS Standards. Do you agree with the IPSASB's Preliminary View? If not, please provide your reasons and clearly explain what you consider should be changed.

Preliminary View 16—Chapter 6: Disclosure of Information in the Notes
The IPSASB's Preliminary View is to not include an amended IFRS 18 MPM concept for application in the public sector (thereby not introducing an amended version of the IFRS 18 MPM definition or disclosure requirements into the IPSAS Standards). Do you agree with the IPSASB's Preliminary View? If not, please: a) Provide your reasons, and provide specific examples of alternative performance measures that are defined by management and provided in public communications outside the financial statements; and b) Clearly explain why there is a need for greater transparency of those measures that warrants new guidance in the IPSAS Standards.

57. We have considered PV 15 and PV 16 together and provide a combined response.

58. Evidence from our review of a sample of public sector financial statements indicates that some measures used by New Zealand public sector entities may meet the IFRS 18 definition of MPMs (for example, 'adjusted net surplus before tax' and 'earnings before interest, tax, depreciation and amortisation' (EBITDA) reported by some universities and Crown Entities, or 'operating balance before gains or losses' (OBEGAL) reported by the government). While the IPSASB concluded that alternative performance measures meeting the IFRS 18 definition of MPM are not prevalent in the public sector, the usage of such measures may be common enough to merit consideration of disclosure requirements.

59. Feedback received indicates that 'non-GAAP' performance and position measures in the public sector may not always be well understood by public sector stakeholders and that enhanced disclosure requirements for those measures could be beneficial.

60. However, we also note that public sector entities publish a broad range of information, including in budgets and annual reports, and share performance and expenditure information on a variety of platforms including websites and media releases. Therefore, it may be difficult and costly:

(a) For public sector entities to identify MPMs; and

(b) For auditors to provide reasonable assurance that MPM disclosures are complete.

Those challenges would further increase if the scope of the disclosures is broadened to financial performance and position measures beyond the IFRS 18 definition of MPM.

61. Therefore, we consider that the IPSASB should only develop disclosure requirements for MPMs and/or other financial performance or position measures used by public sector entities in public communications if it can identify an approach that minimises the cost of identifying those measures.

62. If such an approach is identified, the IPSASB should consider extending the enhanced disclosure requirements to financial performance and position measures beyond the IFRS 18 definition of MPM (for example net debt or residual cash).

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	6 August 2026
Subject:	**IPSASB ED 97 *Making Materiality Judgments* – approval of comment letter**
Date:	23 July 2026
Prepared by:	Alex Stainer
Through:	Gali Slyuzberg, Michelle Lombaard

☒ **Action Required** ☐ **For Information Purposes Only**

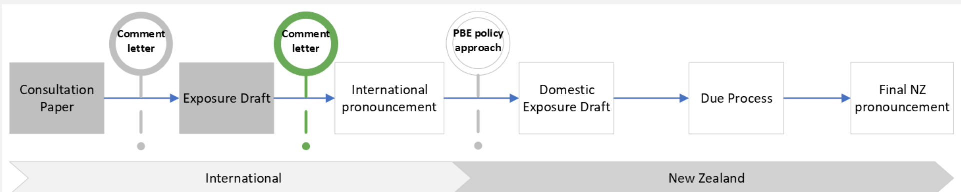
COVER SHEET

Project priority and complexity

Project purpose	To influence the direction of the IPSASB project to align the definition of material in the IPSAS Standards with the Conceptual Framework [Phase 1] and improve the application of materiality in public sector entities' financial statements [Phase 2], to reduce over-disclosure of irrelevant information and under-disclosure of relevant information.
Cost/benefit considerations	Materiality is fundamental to balancing the benefits and costs of reporting. Improving the application of materiality is expected to lead to greater benefits of reporting. The costs and benefits are set out in Table 2 of this memo.
Project priority	**Low priority** The IPSASB have separated the project into 3 phases: • **Phase 1 –** align definition of material across IPSAS Standards and Conceptual Framework. • **Phase 2 –** issue guidance to help the application of materiality for financial reporting, based on IFRS Practice Statement 2. • **Phase 3 –** develop guidance on the application of materiality for sustainability reporting. The IPSASB have now completed Phase 1, and progressed Phase 2 to ED stage with the issue of IPSASB ED 97 *Making Materiality Judgments*. While materiality is an important and pervasive topic, the proposed guidance in ED 97 is non-authoritative and does not change requirements in standards.

Overview of agenda item

Project Status



Board action required	**Low complexity** **APPROVE** the draft comment letter in respect of IPSASB ED 97 *Making Materiality Judgments*

Purpose

1. The purpose of this paper is to provide the Board with an update on consultation undertaken since its consideration of the draft comment letter on IPSASB ED 97 *Making Materiality Judgments,* and to seek approval of the final comment letter for submission to the IPSASB.

Recommendations

2. The Board is recommended to:

   (a) NOTE the feedback received from stakeholders on IPSASB ED 97 *Making Materiality Judgments*;

   (b) NOTE the amendments made to the draft comment letter following consultation; and

   (c) APPROVE the attached comment letter for submission to the IPSASB.

Background

IPSASB Materiality Phase 2 project

3. The IPSASB Exposure Draft ED 97 *Making Materiality Judgments* (Phase 2 of the IPSASB's Materiality project) proposes non-authoritative guidance intended to support preparers in applying materiality judgements when preparing general purpose financial statements.

4. The project builds on the IPSASB's earlier materiality work and aims to assist entities in applying materiality concepts in practice through additional guidance and illustrative examples.

5. The IPSASB published ED 97 for public consultation on 30 April 2026, and we published the ED on our website shortly afterwards. At its April 2026 meeting, the NZASB agreed to comment on the ED. We mentioned our consultation on the ED in Accounting Alerts during May and June 2026. Comments were due to the XRB by 3 July. Comments to the IPSASB close on 28 August.

Previous Board consideration

6. At its June 2026 meeting, the Board considered a draft comment letter on the Exposure Draft and provided feedback on the proposed responses.

7. The Board generally supported the direction of the draft response, including comments regarding the recommendations to enhance the practical application of the proposed guidance, the usefulness of the illustrative examples, and the applicability of the proposals to public sector entities.

8. Since that meeting, staff have published the draft comment letter on the XRB website (and made stakeholders aware of this via an Accounting Alert), and have undertaken consultation with several stakeholders. However, no formal submissions were received.

9. The following sections summarise the key feedback received and outline the amendments made to the draft comment letter.

Consultation feedback

Technical Reference Group

10. Staff discussed the Exposure Draft and the draft NZASB comment letter with the Accounting Technical Reference Group (TRG) on 16 June 2026.

11. TRG members generally supported the direction of the draft comment letter. Key observations included:

    (a) support for the IPSASB's objective of providing additional materiality guidance, while noting that further public sector-specific application support would be beneficial;

    (b) challenges associated with identifying and responding to the information needs of broad and diverse public sector primary users; and

    (c) the importance of materiality guidance supporting efforts to reduce unnecessary disclosures and improve the readability of financial reports.

12. TRG members considered the Exposure Draft to be a useful starting point but noted that additional practical guidance and public sector-focused application support would be beneficial.

PBE Working Group

13. The Exposure Draft was discussed with the PBE Working Group on 24 June 2026. Attendees at this meeting included preparers from the Treasury, local government (councils) and the tertiary education sector.

14. Working Group members generally supported the objectives of the project and the feedback provided was broadly consistent with the position taken in the draft comment letter.

15. One stakeholder recently applied the proposed guidance in practice as part of developing materiality judgements for a set of public sector financial statements, and was able to provide some targeted observations.

16. Key observations included:

    (a) The proposed guidance was considered useful, particularly because it broadly aligns with IFRS Practice Statement 2, and provided consistency with equivalent guidance used in the for-profit sector;

    (b) There was support for greater application focus, as there were several challenges in applying the guidance:

        i. the guidance is high-level and therefore not framed in a way that reflects that preparers may need to develop their own entity-specific materiality frameworks or methodologies to apply the proposed principles in practice; and

        ii. the guidance could be more public sector tailored in those particular areas requiring significant judgement, including the interaction of qualitative and quantitative factors and contingencies (i.e. contingent liabilities and assets);

    (c) That other educational material, implementation resources and communities of practice may also play an important role in helping preparers apply principles-based materiality guidance in practice; and

    (d) Caution that examples should support the exercise of professional judgement and not encourage a checklist-based approach to applying the guidance.

17. Feedback from the Working Group generally aligned with the themes identified in the draft NZASB comment letter. However, we propose to make some changes to the letter to emphasise the point above relating to preparers' need to develop their own policies for applying materiality in practice, and the point on contingent liabilities and assets. See the section 'Impact of consultation on the comment letter'.

Other feedback

Professional bodies

18. We discussed the ED and our draft comment letter with staff of professional accounting bodies.

    (a) One stakeholder noted the following preliminary views and observations:

        i. Not aware of any concerns in Australia about AASB Practice Statements 2 *Making Materiality Judgements*, which is closely based on IFRS Practice Statement 2 and applies to both for-profit entities and 'not-for-profit' entities in the private and public sectors. The IPSASB's proposed guidance goes further than AASB Practice Statement 2 in terms public sector adaptations, by providing specific public sector examples, which is positive.

        ii. However: The stakeholder also tended to agree with aspects of the Alternative View (AV) accompanying the ED (which the NZASB draft comment letter is generally aligned with) – specifically, the AV recommendations about developing further guidance on qualitative materiality considerations and discussing the entity's budget in the context of the accountability aspect of materiality.

        iii. Qualitative materiality considerations are also important in the context of service performance reporting and sustainability reporting – and connectivity between these and the financial statements is important.

        iv. Question around 'potential primary users' – whether these should be covered or not, and who are these users. (Note: paragraph BC15 of the ED states that the guidance on potential primary users was excluded from the proposals, because the IPSABS Conceptual Framework focuses on existing primary users – but paragraph 14 of the ED says that primary users include potential resource providers and service recipients).

    (b) Another stakeholder noted that their preliminary views are generally aligned with our draft comment letter and the Alternative View.

19. This feedback generally aligns with the themes identified in the draft NZASB comment letter.

Others

20. We also received feedback from a council (not part of the PBE Working Group meeting) that they have reviewed our draft comment letter and had no further comments to add.

Impact of consultation on the comment letter

21. Consultation feedback was broadly consistent with the positions previously considered by the Board. As a result, staff have not identified any matters arising from consultation that would warrant reconsideration of the Board's previously agreed overall positions.

22. However, staff considered that two practical insights arising from consultation warranted inclusion in the final draft comment letter.

(a) Stakeholders observed that, in practice, preparers may develop entity-specific materiality frameworks, methodologies, or policies to support consistent and repeatable materiality judgements.

(b) Stakeholders highlighted contingent liabilities and contingent assets as an area where materiality assessments frequently involve significant uncertainty and qualitative judgement.

23. These insights are consistent with the direction of the existing observations articulated in the comment letter but provide further detail and context to help clarify our overall message to the IPSASB.

24. Accordingly, we have amended the comment letter to:

(a) Further emphasise that more application-focused guidance assists preparers in developing approaches that support consistent and repeatable materiality judgements.

(b) Include contingent liabilities and contingent assets as an example of an area where additional application guidance may assist preparers in understanding the interaction of qualitative and quantitative factors.

Other amendments

25. In addition to the amendments described above, minor drafting changes have been made to:

(a) improve clarity and consistency;

(b) strengthen supporting rationale in several responses; and

(c) reinforce comments regarding public sector applicability.

Approval of comment letter

26. Staff consider that the final draft comment letter appropriately reflects the Board's previously discussed views and incorporates relevant feedback received through consultation.

27. The Board is therefore asked to approve the attached comment letter for submission to the IPSASB.

Question for the Board
Q1. Does the Board **APPROVE** the comment letter in response to IPSASB ED 97 Making Materiality Judgments for submission to the IPSASB, subject to any final editorial or non-substantive amendments being approved by the Chair of the NZASB?

Next steps

28. Subject to Board approval, staff will finalise and submit the comment letter to the IPSASB before the closing date (28 August 2026). Staff will continue to monitor the IPSASB's deliberations on the project and report any significant developments to the Board as appropriate.

Attachments

- Agenda Item 14.1b: NZASB comment letter in response to IPSASB ED 97 *Making Materiality Judgments*
- Agenda item 14.1c: IPSASB ED 97 *Making Materiality Judgments* (attached as a link)

XRB | *Te Kāwai Ārahi Pūrongo Mōwaho*
EXTERNAL REPORTING BOARD

6 August 2026

Mr Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario M5V 3H2
CANADA

Submitted to: www.ifac.org

Dear Ross,

IPSASB Exposure Draft – *Making Materiality Judgments*

Thank you for the opportunity to comment on Exposure Draft 97 *Making Materiality Judgments* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you.

Support for the objectives of the guidance

We support the IPSASB's objective of developing non-authoritative guidance tailored for the public sector to support preparers in making materiality judgements when preparing general purpose financial statements (GPFS).

We acknowledge the considerable work undertaken to adapt International Financial Reporting Standards (IFRS) Practice Statement 2 *Making Materiality Judgements* to the public sector. We also recognise the importance of high-quality public sector materiality guidance for preparers, auditors, and oversight bodies. The project's aim to address the challenge whereby entities provide too much irrelevant information or not enough relevant information is critical for the ongoing improvement of public sector reporting and meeting primary user needs.

New Zealand's public sector preparers of financial statements have a long history of applying materiality judgements in a complex reporting environment. Our experience indicates that challenges remain in translating conceptual principles into practical and consistent judgements, particularly given the broad and diverse user groups of public sector financial statements.

We are therefore supportive of the proposed guidance and its objectives. The ED provides a useful overview of materiality in the public sector and highlights important conceptual principles. However, the public sector adaptations in the proposed guidance often remain high-level, with limited articulation of how those concepts are applied in a GPFS context.

Improving application focus

In practice, preparers often need to take an intermediary step between understanding principles-based materiality guidance and applying it to individual recognition, measurement, presentation and disclosure requirements. This may involve developing entity-specific materiality frameworks, methodologies, or policies that identify relevant quantitative benchmarks, qualitative factors, user accountability considerations, and the interaction between those factors. We consider that the proposed guidance would be strengthened by providing more application focused content to assist preparers in moving from understanding the concept of materiality to applying and refining their judgement in practice.

Given the purpose of the adaptation process, there is a strong case for enhancing the practical application of the guidance. This would support the project's aim of helping public sector entities avoid situations whereby their financial statements include too much irrelevant information or do not include enough relevant information, and improving consistency in materiality judgements.

Interactions with IPSASB's Presentation of Financial Statements project

Further practical clarity, embedded in a public sector context, will also be important in supporting the IPSASB's *Presentation of Financial Statements* project, as the effective application of materiality will be critical to judgements about the aggregation and disaggregation of information within the primary statements and the notes. In the for-profit sector, we are observing that the enhanced requirements on the grouping of information in IFRS 18 *Presentation and Disclosure in Financial Statements* are providing an opportunity for entities to reconsider what information is material to primary users and to 'refresh' their approach to presentation and disclosure accordingly.

The IPSASB's *Presentation of Financial Statements* project could provide the same opportunity for public sector entities. Strengthening the practical applicability of the guidance on making materiality judgements, particularly in relation to public sector specific qualitative factors, will therefore be important to support consistent implementation of the potential new standard resulting from the *Presentation of Financial Statements* project.

Recommendations

We recommend the final guidance would be strengthened by becoming more application-focused by:

- Providing further practical guidance to help preparers navigate the broad definition of material and the breadth of primary user groups, including:
    - acknowledgement that IPSAS requirements establish a 'baseline' level of information for broad primary user groups (such as citizens and taxpayers), allowing preparers to focus on identifying additional information that may be required, or where specific items of information in IPSAS may not be material;
    - articulation of how the entity's discharge of accountability is reflected within GPFS, and how primary users assess the entity's discharge of accountability based on GPFS, including the types of information or changes that may influence those assessments; and
    - greater emphasis on the mapping of primary users' accountability needs and decision-making needs to the information provided in GPFS, including clearer explanation of how financial statements support (and are limited in supporting) these needs.
- Placing greater emphasis on how materiality judgements are applied in practice within the four-step materiality process, including:

  - in step 1, more explicit consideration of primary users and their information needs including strategies around how to gather this information, and clearer guidance on identifying potentially material information beyond specific IPSAS requirements;
  - in step 2, more emphasis is required in explaining how the qualitative and quantitative materiality factors are applied in practice, particularly in assessing when accountability and decision-making are influenced by these factors, and in context of the boundaries and objectives of GPFS;
- Providing an additional holistic public sector example that demonstrates the reasoning behind a materiality decision in a public sector context, showing how multiple qualitative factors specific to the public sector are considered together in practice, rather than as discrete aspects of materiality.

We consider that making further adaptations is appropriate given the IPSASB's adaptation of IFRS guidance as a starting point, and the significant differences in context and experience between public sector and for-profit reporting – particularly the difference between primary users in the public sector as compared to the for-profit sector.

Alternative view

In respect of the alternative view, our recommendations generally align. We support a measured approach to strengthening public sector adaptation, including incorporating primary users' accountability needs throughout the guidance, clearer articulation of the interaction between qualitative and quantitative factors, and targeted examples that address public sector-specific materiality challenges.

Responses to the questions proposed in the ED

Our responses to SMC 1 and 2 are outlined in Appendix A.

Definition of materiality in context of GPFR and GPFS

Finally, we acknowledge the broader conceptual tension between the definition of materiality in the IPSASB's Conceptual Framework, which refers to decisions made by primary users on the basis of general purpose financial reports (GPFR), and the definition of materiality in IPSAS 1 *Presentation of Financial Reports,* as reflected in the proposed guidance, which refers to the decisions made by primary users on the basis of GPFS.

We acknowledge that this guidance appropriately focuses on GPFS, and the reference to the definition of materiality per IPSAS 1 (rather than per the Conceptual Framework) to avoid confusion in relation to the two different definitions of materiality. However, we note the following:

- In practice, assessments of accountability and decision-making in the public sector are often informed by information in GPFR (e.g. service performance information) and a wider set of other accountability documents, rather than GPFS alone.
- In addition, as recommended in our comment letter on IPSASB ED 93 *Definition of Material,* we consider it is important to clearly articulate the difference between the definition of material in the Conceptual Framework and in IPSAS 1, and the reasons and implications of the difference.

We understand this matter is outside the scope of this project but consider that it would benefit from further consideration as part of the IPSASB's future work on the reporting architecture, particularly in clarifying the role of GPFS within the wider GPFR framework and the implications for applying materiality in practice.

If you have any queries or require clarification of any matters in this letter, please contact accounting@xrb.govt.nz.

Yours sincerely,

Dr Carolyn Cordery
Chair, New Zealand Accounting Standards Board

Appendix A

Specific Matter for Comment 1
The IPSASB decided to issue developing non-mandatory guidance in making materiality judgments when preparing financial statements aligned with Practice Statement 2 (see paragraphs BC10–BC22). Do you agree with how the IPSASB adapted Practice Statement 2 guidance for the public sector context? If not, please explain your reasons. If you agree, please provide any additional reasons not already discussed in the Basis for Conclusions. *The ED includes an Alternative View that the non-mandatory guidance in [draft] IPSAS Practice Statement, Making Materiality Judgments, could benefit from further public-sector adaptation.*

1. Overall, we agree with the IPSASB's decision to adapt IFRS Practice Statement 2 for the public sector and to issue the guidance as a Practice Statement. We consider the four-step materiality process (identify, assess, organise, review) to be an appropriate structure for supporting consistent judgement, subject to our recommended enhancements noted below under the heading 'four-step model'.

2. We strongly recommend enhancing the proposed guidance to improve its practical applicability in the public sector context – so that the guidance can more effectively achieve its objective of helping public sector preparers apply materiality judgements in the context of its users.

3. We acknowledge that materiality is inherently entity-specific and that it is not appropriate for the guidance to prescribe definitive outcomes of materiality judgements. Our comments are more directed at providing additional matters for evaluation to improve how the guidance supports preparers in applying materiality judgement in practice.

4. Overall, while the ED appropriately reflects IPSASB's Conceptual Framework principles relating to the public sector context, the guidance would benefit from further articulation of how those principles are applied in making judgements for GPFS. In particular:

    - Public sector specific sections of the guidance remain largely conceptual and would benefit from further practical application focus;
    - There is limited practical guidance on how to approach assessing the information needs of very broad and diverse public sector primary user groups, and how to appropriately focus information; and
    - The discharge of accountability, and primary user decision-making assessments, are not clearly articulated in practical terms. It is also not clear how these assessments, which often require broader information than what is contained in GPFS are influenced by information within GPFS. This lack of clarity makes it more difficult for preparers to assess when information in GPFS could reasonably be expected to influence those assessments.

Primary users (Paragraphs 13–15)

5. In the public sector, the breadth of primary users creates a fundamental challenge – determining materiality in light of multiple different user needs. Primary user groups such as citizens and taxpayers may effectively include the entire population of a jurisdiction, with differing levels of engagement, sensitivity and accountability expectations. Primary users are described conceptually, but there is no acknowledgement of this key challenge, and what it might mean practically when making materiality judgements.

6. The section on primary users in the guidance would benefit from further application-focused context to support preparers in identifying and considering primary users, understanding their common information needs, and linking those needs to information presented in GPFS.

7. This could be supported by:

   - clarifying how broad user groups (such as citizens and taxpayers) should be considered in a GPFS context. For example, by acknowledging that IPSAS requirements provide a baseline level of information that addresses common accountability and decision-making needs across these broad user groups.
   - illustrating in more detail the different types of user groups in practice, and the different types of decisions these primary users make based on GPFS;
   - further consideration of the extent to which "potential users" are included and how an entity considers their needs in particular – noting that the ED refers to considering the information needs of 'potential service recipients and resource providers' in addition to existing ones; and
   - providing insight into the features of those different types of primary users (e.g. general interest, sensitivity to particular information, level of scrutiny, expected engagement with the financial statements and diversity) and how these may influence the types of decisions made based on GPFS.

Accountability and decision-making (Paragraphs 16–22)

8. While accountability is described conceptually in the proposed guidance (e.g. management of resources entrusted to the entity, compliance with laws, regulations and authorities governing service delivery, effectiveness and efficiency), the guidance does not clearly articulate how the discharge of accountability is assessed in practice through information presented in GPFS. As a result, it is not always clear how information in GPFS is reasonably expected to influence the discharge of accountability, particularly where user groups are broad and diverse and many assessments are informed by information beyond GPFS.

9. Similarly, the guidance does not clearly articulate what accountability-related decisions primary users make based on an entity's GPFS, and what type of information in GPFS may be needed for making these decisions.

10. While the guidance appropriately reflects the accountability and decision-making concepts set out in the conceptual framework, it would benefit from further application focused discussion of how those concepts are reflected in, and informed by, information presented in GPFS. Such guidance would help preparers assess whether information could reasonably be expected to influence accountability and decision-making assessments and support the development of consistent approaches to applying materiality judgements in practice.

11. To help public sector entities consider primary users' information needs when making materiality judgements in practice, the guidance could be strengthened as follows:

   - To help preparers understand accountability in the context of materiality judgements:
     - o more explicitly linking the discharge of accountability to information presented in GPFS, including more practical information, such as:
       - – how users assess stewardship through changes in financial performance, financial position and cash flows; or

  – how users might apply an accountability lens to the type of spending incurred during the year;
 - providing further insight into the types of information or changes that may influence assessments of the discharge of accountability, such as deviations from expectations (e.g. budgets or trends); and the underlying transactions, events or conditions driving those changes;

- To help preparers understand and apply both the accountability and decision-making aspects of materiality in practice:
  - mapping the assessments (e.g. assessments of service delivery, sustainability, capacity, performance, liquidity, solvency) that different types of service recipients and resource providers make, as mentioned in paragraphs 19–21 of the guidance, to the information in GPFS that would likely serve as inputs into these assessments, and also to the relevant accountability and decision-making needs of these types of primary users; and
  - acknowledging that GPFS provide an important, but partial, input to accountability and decision-making, and that preparers may need to consider the wider reporting and accountability context when applying materiality judgements within GPFS, and when considering the types of decisions primary users make based on GPFS.

12. The following examples illustrate how mapping the assessments that primary users make to the relevant information in GPFS and their accountability and decision-making needs would be beneficial:

- Paragraph 20 says that service recipients require inputs to assess whether the entity is using resources economically, efficiently, effectively, and as intended, and whether such use is in their interest. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment (e.g. information about the entity's revenue and expenses in the current period compared to prior period and with the budgeted information for the current year). It would also be useful to link this assessment to service recipients' accountability needs, in relation to stewardship of resources and service delivery.
- Paragraph 21 says that lenders require inputs to assess the entity's liquidity, to determine whether the entity will repay the loan on time. It would be useful to link this to the information in GPFS that would be relevant as inputs to this assessment (e.g. current assets and liabilities in the statement of financial position, maturity analyses in the notes). It would also be useful to mention that this assessment would inform the lender's decision on whether to lend more money to the entity, or call back the loan, etc.

13. Explanations such as these would help in demonstrating the link between the assessments that different groups of primary users make as per paragraphs 19-21 and the GPFS themselves, which could help in applying materiality in practice. These explanations would also strongly link the abovementioned assessments with the core materiality concepts of accountability to, and decision-making of, primary users, helping bring these concepts 'to life' in practical terms.

Common information needs (Paragraphs 23–25)

14. This section could assist in practically addressing the fundamental challenge of how preparers should address the breadth and diversity of primary users in practice. This is a key aspect of

developing a consistent approach to assessing what information may reasonably be expected to influence primary users' accountability and decision-making assessments.

15. While the ED appropriately emphasises that common information needs of primary users should be considered without prioritising individual users, preparers must still make decisions about information that may be of more interest to a particular primary user group. However, there is limited guidance on how this may be achieved in a public sector context when considering these broad user groups.

16. This could be supported by:

- Reinforcing the role of IPSAS requirements as a baseline (that existing requirements generally provide a foundation for meeting the common information needs of broad user groups), although in some cases entities may need to provide more information, and in other cases certain items specified in IPSAS may not need to be separately presented or disclosed if they are not considered material for a specific entity's primary users;
- Clarifying how differences in the level of interest, engagement or sensitivity across user groups of common information needs may be considered in applying judgement. While also acknowledging that this doesn't necessarily constitute a prioritisation of users but is a way of focusing on information that is impactful.

17. Example G could also be refined, as it can be read in a manner that implies a preparer might prioritise providing certain information to a user group based on their importance to the entity (specifically in terms of funding in this example). The rationale would be more consistent if it solely focused on the nature of the information request itself, and that it is not a common information need across the donor/resource provider user group, rather than outlining the relative significance of that specific user to the entity.

Four-step model (Paragraphs 35 – 67)

18. We support the introduction of a structured materiality process via the four-step model and consider it an appropriate framework for supporting consistent judgement. Consistent with the observations above regarding primary users, accountability, and common information needs, both step 1 and step 2 would benefit from additional application-focused guidance to help preparers translate these concepts into consistent approaches to applying materiality judgements in practice. In particular:

- Step 1 could more clearly illustrate how preparers identify information that has the potential to be material in practice; and
- Step 2 could clarify how qualitative factors are assessed, particularly in respect of influencing the discharge of accountability.

Step 1 – Identify information that has the potential to be material

19. While paragraphs 37–40 describe the sources of information to be considered, the guidance remains high level and would benefit from further explanation of how preparers identify and evaluate information that has the potential to be material in practice, including:

- how preparers may identify additional information beyond that which is specifically required in IPSAS that is necessary for enabling primary users to understand the impact of the entity's transactions, other events and conditions on the entity's financial position, financial performance and cash flows (per paragraph 40); and

- what indicators may help focus attention on information that has the potential to be material.

20. Consistent with our observations under the ‘primary users’ and ‘accountability and decision making’ above, this highlights the importance of a clear linkage (or mapping) between primary users and their decisions and the specific information provided in GPFS that may influence those decisions.

21. This could be supported by:
    - reinforcing a process of linking primary users, their decisions, and the information required from GPFS as a starting point;
    - providing illustrative indicators to help identify potentially material information, such as:
        - significant changes in financial performance, financial position or cash flows;
        - variances against budgets or prior periods;
        - underlying drivers of those changes; and
        - areas of heightened public interest or sensitivity.

Step 2 – Assess whether information is material

22. Step 2 introduces a well-developed set of materiality factors and provides a helpful foundation for applying judgement in practice. In our view, this section is generally well articulated but would benefit from further clarity on how qualitative factors are assessed in practice, particularly where multiple qualitative and quantitative factors interact, and how these assessments are linked to primary users’ accountability and decision-making needs.

23. In particular, the guidance could be further strengthened by:
    - Providing additional clarity on how qualitative and quantitative factors may influence the discharge of accountability through GPFS. This could include more explicit explanation of how the nature, extent, and context of a factor and its impact on information within GPFS might affect the discharge of accountability (for instance, how does links to a policy or service delivery objective per paragraph 50(a) of the guidance tie to influencing the discharge of accountability). This might also include reference to how changes in financial performance, financial position, and departures from expectations can influence the entity’s discharge of accountability. Such explanation would also assist preparers in identifying measures of broad interest across user groups when undertaking quantitative assessments and support more consistent application of materiality judgements;
    - Offering further context on how preparers may consider the relative significance of qualitative factors where multiple interacting factors are present, which is often the case in the public sector. Qualitative factors often coexist alongside quantitative considerations and broader contextual information. The guidance would be enhanced if it acknowledged how they can be assessed together. For example, contingent liabilities and contingent assets may provide a useful public sector scenario for illustrating how to consider the relative significance of qualitative and quantitative factors. Materiality judgements about contingent liabilities often involve significant uncertainty about the occurrence of the event and the related outflow. Preparers may need to consider the nature of the matter, the level of uncertainty, potential public interest, accountability

implications, and whether disclosure would influence primary users' assessments of the entity's discharge of accountability. An example of this nature could help demonstrate how qualitative and quantitative considerations are weighed together in practice (see response to SMC 2);

- Acknowledging that when determining the impact of qualitative factors, and the resulting reporting outcome, preparers must also consider the objectives and boundaries of GPFS. For instance, the guidance could explain how preparers assess whether a qualitative factor (such as heightened scrutiny or public interest) justifies changes to presentation, disaggregation, or disclosure within GPFS, having regard to the role of GPFS in supporting accountability and decision-making, as distinct from the broader reporting environment. This would assist preparers in determining when the presence of a qualitative factor should influence GPFS reporting outcomes, and why; and
- Clarifying how presence of qualitative factors may translate into financial statement reporting outcomes (e.g. disclosure or disaggregation).

Specific Matter for Comment 2
Do you find the examples on applying the concept of materiality when preparing financial statements in accordance with IPSAS Standards helpful? Do you think any additional practical examples should be included? If so, what scenarios should the examples address? Please be as specific as possible and explain why those examples would be helpful to entities.

24. Overall, the examples are generally structured to illustrate specific principles or discrete aspects of materiality and are useful in that respect. However, they do not demonstrate how preparers holistically work through a reasoning process to make materiality judgements. This is particularly important in the public sector context where interacting qualitative and quantitative factors are common, and where high scrutiny and broad user groups are the norm.

25. This is illustrated in some examples (Examples D, K, and Q) that are intended to reflect specific principles, but the link between the factors identified and the materiality conclusion reached is not always clear, and therefore does not support how holistic materiality judgements are made:

   - In Example D, while it is demonstrated that heightened parliamentary and public scrutiny may result in presenting an expense separately in the statement of financial performance, it is not clear why, in this case, the expenditure is sufficiently material to warrant that outcome. In particular, there is limited explanation of how this qualitative factor is expected to influence primary users' accountability assessments or decision-making in practice. The example also does not sufficiently consider how such a factor should be assessed alongside other relevant considerations, including the objectives and boundaries of GPFS and the broader information environment in which public sector entities operate.

     In the public sector, many areas of expenditure are subject to some level of public interest or scrutiny. Public scrutiny alone is not sufficient to support a materiality conclusion without further explanation of how it influences primary users' assessments in the context of GPFS, taking into account the objectives and boundaries of GPFS. Without further explanation, there is a risk that the example could be applied more broadly, implying that public scrutiny alone justifies disaggregation or additional disclosure in GPFS. Further articulation of how these factors are weighed together, and why this results in a particular reporting outcome within GPFS, would strengthen the example and better support preparers in applying the guidance in practice.

   - In Example K, it is not fully clear why the related party nature of what appears to be a routine maintenance contract would be expected to influence primary users' assessments, or how this factor is sufficient to change what would otherwise appear to be a quantitatively immaterial transaction into a material one.

   - In Example Q, it is not fully clear how the cumulative quantitative effects of the error are assessed relative to the reduction in budgeted expenditure as a qualitative factor, or how these considerations together are weighed in reaching the materiality conclusion.

26. To address these limitations, we recommend the guidance be strengthened to include an additional holistic public sector example that demonstrates how materiality judgements are made where several competing or interacting factors are present. This could include, for example, a contingent liability or other uncertain matter where the amount is not readily determinable, or is quantitatively small, but where qualitative considerations such as public interest, legal or regulatory significance, accountability implications, or heightened scrutiny

may be relevant in assessing materiality. This type of example could demonstrate how preparers:

- identify relevant information and assess it in the context of primary users and their information needs;
- evaluate quantitative and qualitative factors especially where they might compete; and
- bring together these considerations to reach a materiality conclusion.

27. Presenting such an example in a way that clearly illustrates how multiple public sector factors are considered together would further support preparers in applying the guidance in practice.