Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Accounting Standards Board

MEETING PACK

for

NZASB meeting - 131 - Public

Monday, 12 October 2026

9:00 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

Generated: 2026-10-05 10:03:18

INDEX

Cover Page

Index

Agenda

Attached Documents:

5.1 a	Board memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	8
5.2 a	Standard - NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	26
5.3 a	XRB Signing memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	81
5.4 a	CAS Assessment - NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	89
5.5 a	Board memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20.pdf	107
5.6 a	Standard - Consequential Amendments to NZ IFRS arising from NZ IFRS 20.pdf	115
5.7 a	XRB Signing memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20.	130
5.8 a	CAS Assessment - Consequential Amendments to NZ IFRS arising from NZ IFRS 20 (1)	137
5.9 a	Board memo – Proposed RDR Concessions NZ IFRS 20.pdf	155
6.1 a	Board memo – IPSAS adoption around the world.pdf	166
6.2 a	Board memo – Alignment between IPSAS and IFRS Accounting Standards.pdf	178
6.3 a	Board memo - Alignment with Australia (1).pdf	203
8.1 a	Board memo – PBE Sector Overview Paper.pdf	225
8.2 a	Board memo – Public Sector Tier 1 and Tier 2.pdf	233
8.3 a	Board memo – Not-For-Profit Tier 1 and Tier 2.pdf	326
8.4 a	Board memo – Public Sector and Not-For-Profit Tier 3 and Tier 4.pdf	426
9.1 a	Board memo - Tier 2 Entities Opting-in Update.pdf	469
9.2 a	Board memo - Mixed Groups Update.pdf	473
13.1 a	Board memo - Update on mandatory date.pdf	480
15.1 a	Board memo – Annual Review of Modified Audit Reports.pdf	485

AGENDA

NZASB MEETING - 131 - PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Monday, 12 October 2026
Time:	9:00 am to 5:00 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington
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 (10 min)

2. Non-public session

2.1 Non-public session — 9:10 am (15 min)

3. Non-public session

3.1 Non-public session — 9:25 am (85 min)

4. Break

4.1 Break — 10:50 am (10 min)

5. NZ IFRS 20 Regulatory Assets and Regulatory Liabilities

5.1 Board memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities — 11:00 am (70 min)

For Decision

Supporting Documents:

5.1.a	Board memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	8

5.2 Standard – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities

For Decision

Supporting Documents:

5.2.a	Standard - NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf	26

5.3 Signing memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities

For Decision

Supporting Documents:

5.3.a XRB Signing memo – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf 81

5.4 CAS Assessment - NZ IFRS 20 Regulatory Assets and Regulatory Liabilities

For Decision

Supporting Documents:

5.4.a CAS Assessment - NZ IFRS 20 Regulatory Assets and Regulatory Liabilities.pdf 89

5.5 Board memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20

For Decision

Supporting Documents:

5.5.a Board memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20.pdf 107

5.6 Standard – Consequential Amendments to NZ IFRS arising from NZ IFRS 20

For Decision

Supporting Documents:

5.6.a Standard - Consequential Amendments to NZ IFRS arising from NZ IFRS 20.pdf 115

5.7 Signing memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20

For Decision

Supporting Documents:

5.7.a XRB Signing memo – Consequential Amendments to NZ IFRS arising from NZ IFRS 20.pdf 130

5.8 CAS Assessment- Consequential Amendments to NZ IFRS arising from NZ IFRS 20

For Decision

Supporting Documents:

5.8.a CAS Assessment - Consequential Amendments to NZ IFRS arising from NZ IFRS 20 (1).pdf 137

5.9 Board memo – Proposed RDR Concessions NZ IFRS 20

For Decision

Supporting Documents:

5.9.a Board memo – Proposed RDR Concessions NZ IFRS 20.pdf 155

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

6.1 Board memo – IPSAS Adoption around the world

12:10 pm (30 min)

For Discussion

Supporting Documents:

6.1.a	Board memo – IPSAS adoption around the world.pdf	166

6.2 Board memo – Alignment between IPSAS and IFRS Accounting Standards

For Discussion

Supporting Documents:

6.2.a	Board memo – Alignment between IPSAS and IFRS Accounting Standards.pdf	178

6.3 Board memo – Alignment with Australia

For Discussion

Supporting Documents:

6.3.a	Board memo - Alignment with Australia (1).pdf	203

7. Lunch

7.1 Lunch

12:40 pm (40 min)

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

8.1 Board memo – PBE Sector Overview

1:20 pm (80 min)

For Discussion

Supporting Documents:

8.1.a	Board memo – PBE Sector Overview Paper.pdf	225

8.2 Board memo – Public Sector Tier 1 and Tier 2

For Discussion

Supporting Documents:

8.2.a	Board memo – Public Sector Tier 1 and Tier 2.pdf	233

8.3 Board memo – Not-For-Profit Tier 1 and Tier 2

For Discussion

Supporting Documents:

8.3.a	Board memo – Not-For-Profit Tier 1 and Tier 2.pdf	326

8.4 Board memo – Public Sector and Not-For-Profit Tier 3 and Tier 4

For Discussion

Supporting Documents:

8.4.a Board memo – Public Sector and Not-For-Profit Tier 3 and Tier 4.pdf 426

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

9.1 Board memo – Tier 2 Entities Opting-in Update 2:40 pm (10 min)

For Discussion

Supporting Documents:

9.1.a Board memo - Tier 2 Entities Opting-in Update.pdf 469

9.2 Board memo – Mixed Groups Update

For Discussion

Supporting Documents:

9.2.a Board memo - Mixed Groups Update.pdf 473

10. Non-public session

10.1 Non-public session 2:50 pm (20 min)

11. Break

11.1 Break 3:10 pm (10 min)

12. Non-public session

12.1 Non-public session 3:20 pm (40 min)

13. PBE IPSAS 47 Revenue & PBE IPSAS 48 Transfer Expenses

13.1 Board memo – Update on mandatory date 4:00 pm (10 min)

For Discussion

Supporting Documents:

13.1.a Board memo - Update on mandatory date.pdf 480

14. IASB Request for Information – PIR IFRS 9 Hedge Accounting

14.1 Board memo – RFI PIR IFRS 9 Hedge Accounting

4:10 pm (15 min)

For Decision

Late paper

14.2 Draft Comment Letter – RFI PIR IFRS 9 Hedge Accounting

For Decision

Late paper

14.3 IASB RFI PIR IFRS 9 Hedge Accounting

For Noting

Late paper

15. Annual Review of Modified Audit Reports

15.1 Board memo - Annual Review of Modified Audit Reports

4:25 pm (15 min)

For Discussion

Supporting Documents:

15.1.a	Board memo – Annual Review of Modified Audit Reports.pdf	485

16. Non-public session

16.1 Non-public session

4:40 pm (20 min)

17. Close Meeting

17.1 Close meeting

Next meeting: NZASB meeting - 132 - 24 Nov 2026, 9:00 am

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities***
Date:	1 October 2026
Prepared by:	Nimash Bhikha
Through:	Michelle Lombaard

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

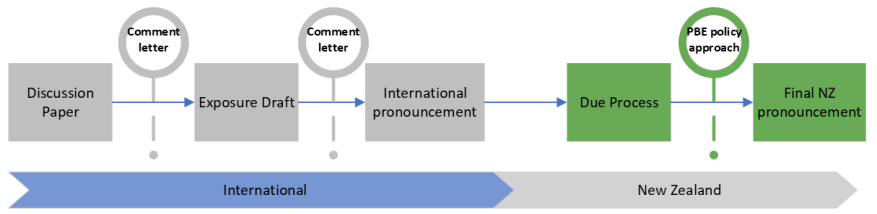
COVER SHEET

Project priority and complexity

Project purpose	**IASB Purpose:** To develop proposals to introduce a requirement for companies to give investors such information by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of financial performance. **NZ Purpose:** To ensure the IASB's requirements are appropriately incorporated into NZ IFRS Standards to support the reporting of regulatory asset and regulatory liability information to users of regulated entities financial statements.
Cost/benefit considerations	**Benefits:** This standard will maintain alignment within international standards and the resulting information would help investors understand which fluctuations in the relationship between a company's revenue and expenses are caused by those differences in timing so that investors could make better assessments of the company's prospects for future cash flows. **Costs:** This standard has complex requirements for rate regulated entities and will result in implementation and on-going costs for these entities, as well as other stakeholders (users, auditors, regulators) who are involved with the reported information of these entities. Further cost and benefit considerations are made within the Consistency Accountability Statement memo.

Project priority	**Low** While the proposed changes within the standard are significant, this is not expected to impact many entities in New Zealand and is not considered a financial reporting priority for New Zealand overall.

Overview of agenda item

Project status	
Board action required	**High complexity** • **APPROVAL TO ISSUE** *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* • **APPROVAL TO REVOKE** *NZ IFRS 14 Regulatory Deferral Accounts* • **APPROVAL** of the signing memo from the NZASB Chair to the Chair of the External Reporting Board • **APPROVAL** of the Consistency Accountability Statement (CAS) assessment memo • **PROVIDE FEEDBACK** on whether to develop domestic equivalent amendments to the PBE Standards ahead of the International Public Sector Accounting Standards Board (IPSASB)

Purpose

1. The purpose of this memo is to seek approval of the domestic equivalent to the IASB new principle standard IFRS 20 *Regulatory Assets and Regulatory Liabilities* (to be known in New Zealand as NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*).

Recommendations

2. We recommend that the Board:

   (a) **APPROVE** for issue the principal standard NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*;

   (b) **APPROVE** for revocation the principal standard NZ IFRS 14 *Regulatory Deferral Accounts*;

(c) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* and revoke *NZ IFRS 14 Regulatory Deferral Accounts*;

(d) **APPROVE** the Consistency Accountability Statement (CAS) assessment memorandum; and

(e) **CONSIDER** the application of the PBE Policy Approach and **PROVIDE FEEDBACK** on whether to develop amendments to PBE Standards based the standard ahead of the International Public Sector Accounting Standards Board (IPSASB).

Structure of this memo

3. This memo includes the following sections:

(a) Background

(b) Summary of the main requirements

(c) Changes made to IFRS 20

(d) Consistency with Australian Accounting Standards

(e) Due process

(f) Commencement and application

(g) Revocation of NZ IFRS 14 *Regulatory Deferral Accounts*

(h) Adoption and implementation support

(i) XRB signing memorandum

(j) Consistency Accountability Statement (CAS) assessment

(k) Application of PBE Policy Approach – NZ IFRS 20

Background

4. In May 2026, the IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities* which is mandatory for annual periods beginning on or after 1 January 2029.

5. The project began in 2008 and has taken a significant amount of time to conclude. Key steps in the IASB's project included:

(a) **2008-2009:** The IASB first added rate-regulated activities as an active project, responding to diversity in practice and calls for guidance. A first Exposure Draft was published in 2009 focussed on a cost-of-service form of rate regulation. Following mixed and strongly divergent feedback, the IASB decided not to proceed with the 2009 proposals.

(b) **2013:** The IASB decided to restart the project with a broader research focus, rather than jumping to accounting proposals. A request for information was issued in March 2013 with the objective to gather information on types of rate-regulatory schemes worldwide to help define the scope of any requirements and whether defined rate regulation creates distinctive rights and obligations.

(c) **2014:** The IASB issued IFRS 14 *Regulatory Deferral Accounts* as temporary relief for first-time adopters of IFRS to continue using local GAAP deferral accounting. This standard was explicitly linked to the expectation of a future standard.

(d) **2015-2020:** The IASB considered the feedback received and deliberated on project direction and model fundamentals. IASB analysed feedback received and gradually focused on recognising regulatory assets and regulatory liabilities arising from timing differences. The IASB also decided to narrow the model to a defined type of rate regulation.

(e) **2021:** The IASB issued a comprehensive Exposure Draft that proposed a comprehensive recognition, measurement, presentation and disclosure model and was intended to replace IFRS 14. The NZASB did not comment on the Exposure Draft, however three New Zealand stakeholders (Transpower NZ, Wellington Electricity Lines Limited, and CA ANZ/CPA Australia) submitted comment letters.

(f) **2022–2024:** The IASB considered the feedback received on the Exposure Draft and redeliberations proposals and made various decisions on the scope and defining features of rate regulation, recognition conditions (including direct relationship with assets), measurement (future cash flows, discounting) and presentation and disclosures of new balances. In July 2024, the IASB confirmed that due process had been satisfied and authorised the project to move to balloting of the final Standard.

(g) **2025:** The IASB reconsidered the sweep issues rising from the drafting of the standard, following concerns raised by some stakeholders. The IASB agreed to the removal of a minimum interest rate requirement, refinements to disclosure and transition requirements and clarifications on discounting and assumptions. The IASB also made decisions on inflation adjustments to regulatory capital bases, clarification of the direct relationship notion and other final drafting refinements ahead of issuance.

(h) **2026:** The IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities* in May 2026 which is mandatory for annual periods beginning on or after 1 January 2029.

6. We note the last public consultation on these requirements was through the Exposure Draft in 2021 and the IASB has spent a significant amount of time since then (5 years) refining the requirements in response to the feedback received to the Exposure Draft. We have considered this further when evaluating due process around these requirements below.

Summary of the main requirements

Note: For an overview of the IFRS 20 Accounting Standard please refer to the IASB's IFRS 20 webcast and the IASB's IFRS 20 at a glance document.

Objective of NZ IFRS 20

7. NZ IFRS 20 establishes a comprehensive accounting model for rate-regulated activities, requiring entities to recognise and explain the financial effects of regulation on performance and financial position.

8. Rate regulation is a form of regulation that sets the regulated rates (sometimes called the prices or tariffs) that entities can charge customers for goods or services. NZ IFRS

20 *Regulatory Assets and Regulatory Liabilities*, applies to all entities that are subject to a specific type of rate regulation—that is, rate regulation that creates differences in timing. Differences in timing arise when part or all of the compensation for regulatory goods or services supplied in one reporting period is included in the regulated rates charged to customers in a different period.

9. If such differences in timing arise and are not accounted for, an entity's statement of profit or loss for a reporting period provides incomplete information about the compensation an entity is entitled to for regulatory goods or services that it supplies in the period.

10. NZ IFRS 20 will improve the quality of financial reporting by requiring entities to account for the effects of differences in timing through the recognition of regulatory assets and regulatory liabilities and related regulatory income and regulatory expense. The standard aims to provide investors and other users with transparent information about regulatory timing differences that affect future cash flows, in order to provide more decision-useful information around a regulated entity's economic performance in the reporting period.

11. NZ IFRS 20 is expected to reduce diversity in accounting practices and give investors a better understanding of:

- The compensation an entity is entitled to for regulatory goods or services supplied in a reporting period, which will provide insights into the entity's financial performance and prospects for future cash flows; and
- An entity's regulatory assets and regulatory liabilities, which will provide insights into the entity's financial position at the reporting date and the amount, timing and uncertainty of its future cash flows.

Scope

12. An entity applies NZ IFRS 20 when all of the following are present:

(a) A regulator exists;

(b) A regulatory agreement exists;

(c) The regulatory agreement prescribes the regulated rate that the entity charges for goods or services that it supplies to customers;

(d) The regulatory agreement provides for differences in timing whereby part or all of the total allowable compensation for regulated goods or services supplied during a reporting period is included in regulated rates charge to customers in a different period (part or future); and

(e) The regulatory agreement creates an enforceable present right or an enforceable present obligation to add or deduct an amount in determining a regulated rate to be charged to customers in a future period.

13. NZ IFRS 20 is intended to apply industries which are typically regulated across many jurisdictions, including utilities, energy, transport and other infrastructure-type entities, but is not industry-restricted. In New Zealand, we expect the following entities to be within (or close to) the scope of the new requirements, however case by case assessments will likely be required.

Sector	NZ IFRS 20 likely applies?	Notes
Electricity Distribution Businesses ***(18 entities)***	Yes	These entities are regulated under Part 4 of the Commerce Act through price-quality paths (Default Price-Quality Path (DPPs) and Customised Price-Quality Path (CPPs)) set by the Commerce Commission. Regulation caps maximum allowable revenue or prices and sets quality standards over multi-year periods. Revenue is determined using a regulatory asset base (RAB), allowed rate of return, depreciation, and pass-through adjustments (e.g. re-openers, major capex). *Note – There are also 12 EDBs which are not subject to price-quality regulations, and information-disclosure regulation only.*
Gas Pipeline Businesses ***(4 entities)***	Yes	These entities are subject to similar Part 4 price-quality regulation regime as electricity lines. Revenue is determined using asset base, cost allowances, and multi-period controls. *Note – Some gas transmission and gas distribution entities are also EDBs, however individual services are regulated in NZ (rather than entities) and as such, one legal entity may be subject to different regulatory agreements for different services.*
Fibre fixed line access service providers ***(1 entity)***	Yes / Potentially	There is one fibre provider currently subject to price-quality regulation. The Commerce Commission sets maximum allowable revenue and quality standards. *Note – There are also 3 fibre providers which are not subject to price-quality regulations, and information-disclosure regulation only.*
International Airports	Not yet / Potentially	Most international airports are subject to information-disclosure regulation and not price-quality regulation. Airports set prices themselves and the Commerce Commission reviews pricing ex-post but does not direct caps or set allowable revenue.
Water services	Not yet / Potentially	Economic regulation is currently being implemented under Part 4 of the Commerce Act for Water services of local Government entities. MBIE notes that the regime is currently focused on economic regulation and information disclosure. Individual water service entities are not yet generally subject to the same price-quality path regime as electricity lines and gas pipeline businesses.
Other sectors (such as telecom, fuel, retail payments)	Potentially	Other regimes impose price caps or benchmarking, but at present do not always establish a right to recover specific past shortfalls through future prices; or lack a sufficiently tight link between specific assets and allowed compensation. Entities will need to assess whether they meet the scope criteria of NZ IFRS 20 based on the terms of their regulation.

Recognition requirements in NZ IFRS 20

14. Under NZ IFRS 20, entities recognise:

    (a) Regulatory assets (and corresponding regulatory income) when they have an enforceable present right to increase future rates to recover amounts relating to goods or services already supplied; and

    (b) Regulatory liabilities (and corresponding regulatory expenses) when they have an enforceable present obligation to reduce future rates because current revenues exceed total allowed compensation for the period.

15. Recognition of regulatory assets and regulatory liabilities depends on the existence of a direct relationship between the regulatory capital base and underlying assets or obligations, assessed using specified indicators within the standard.

Measurement requirements in NZ IFRS 20

16. Regulatory assets and liabilities are measured using estimated future cash flows arising from the regulatory agreement. The cash flows are discounted, unless the recovery or fulfilment period is 12 months or less.

17. The measurement principles reflect the timing and uncertainty of regulatory recovery or refund through future rates. Any measurement changes in estimated regulatory cash flows are recognised as regulatory income or regulatory expense, aligning total recognised income with total allowed compensation for the period

Presentation and disclosures requirements in NZ IFRS 20

18. Entities present regulatory assets and liabilities separately in the statement of financial position and regulatory income and expense separately in the statement of financial performance, distinct from revenue and operating costs. This presentation is intended to avoid obscuring core operating performance while still showing the effects of regulation.

19. NZ IFRS 20 requires entity-specific and regulation-specific disclosures, including:

    (a) The nature of the regulatory agreement and how rates are set;

    (b) The basis for recognising regulatory assets and liabilities;

    (c) The expected timing of recovery or reversal; and

    (d) Key risks and uncertainties affecting regulatory balances.

Transition and interaction with existing NZ IFRS Standards

20. The new requirements in NZ IFRS 20 interact with other IFRS Standards, including NZ IFRS 15 *Revenue from Contracts with Customers*, NZ IAS 12 *Income Taxes* and NZ IFRIC 12 *Service Concession Arrangements*, but introduces new assets and liabilities unique to rate regulation, rather than continuing deferral approaches.

21. NZ IFRS 20 also replaces NZ IFRS 14 *Regulatory Deferral Accounts*, which was developed as a temporary standard until a more comprehensive accounting model for rate-regulated activities could be developed.

Effective date

22. NZ IFRS 20 is mandatory for annual periods beginning on or after 1 January 2029, in line with IFRS 20. Early adoption is permitted and specific amendments are proposed for NZ IAS 1 *Presentation of Financial Statements* (within Appendix E), if this standard is adopted prior to an entity applying NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

23. Given NZ IFRS 18 is mandatory for all Tier 1 and Tier 2 entities from 1 January 2027, we consider it very unlikely that any New Zealand reporting entity will choose to adopt NZ IFRS 20 prior to being required to adopt NZ IFRS 18.

Changes to made from IFRS 20

24. In finalising NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*, a number of refinements were made to the drafting, structure and transition requirements of the Standard. The changes were intended to improve clarity, operability and consistency with New Zealand legislative drafting conventions while preserving consistency with the IASB's IFRS 20 and ensuring that no substantive changes were made to the accounting requirements.

Clarification of the relationship between NZ IFRS 20 and NZ IFRS 14

25. We have considered the legal interaction between NZ IFRS 20 and NZ IFRS 14 *Regulatory Deferral Accounts*. As originally drafted, there was a risk that the timing of the revocation of NZ IFRS 14 and the effective date of NZ IFRS 20 may not have been sufficiently clear, particularly for entities considering early adoption.

26. To address this, the revocation provisions were revised to make clear that NZ IFRS 14 will remain available until the mandatory application date of NZ IFRS 20, allowing entities that do not early adopt NZ IFRS 20 to continue applying NZ IFRS 14 until that date. Conversely, entities that elect to early adopt NZ IFRS 20 will cease applying NZ IFRS 14 from the date of early adoption. This amendment provides a clear transition pathway and removes any uncertainty about which requirements apply during the transition period.

Clarification of the authoritative status of appendices

27. The appendices to NZ IFRS 20 were updated to ensure that users clearly understand their legal and authoritative status. While an appendix forms part of a Standard as a matter of law, it was considered useful to retain explicit wording confirming that each appendix is an integral part of the Standard.

28. The wording used at the beginning of the appendices has been standardised to state that each appendix has the same authority as the other provisions of the Standard. This approach aligns with IFRS drafting practice and helps reduce any uncertainty about the status of material contained in appendices.

Restructuring and clarification of the transition requirements

29. A significant level of re-drafting was made to improve the organisation and usability of the transition provisions. The transition provisions originating from Appendices C and E of IFRS 20 were relocated into Schedule 1 and organised into distinct subparts.

30. This approach makes the requirements easier for preparers and auditors to navigate while preserving consistency with the structure and content of the international standard. The IASB's paragraph numbering conventions, including references beginning with "C"

and "E", were retained to facilitate comparison with IFRS 20 and assist entities using international implementation guidance.

31. Several drafting improvements were also made to the transition requirements themselves. For example, additional wording was inserted in certain provisions to clarify that specific actions must be undertaken "*at the transition date*". Terminology was also aligned across related paragraphs where later requirements depend on decisions made under earlier transition provisions. These refinements do not alter the substance of the transition requirements but make their operation clearer and easier to apply in practice.

Additional transition provisions for entities not early adopting NZ IFRS 18

32. Further refinements were made to address the interaction between NZ IFRS 20 and NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

33. The transition requirements contained in Appendix E of IFRS 20 apply only to a particular population of entities. To ensure this limitation was clear, an additional NZ provision was inserted identifying those entities to which the requirements apply. The provision clarifies that the additional transition requirements apply only to entities that have not early adopted either NZ IFRS 20 or NZ IFRS 18.

34. The drafting was also enhanced to make clear that entities which have not early adopted NZ IFRS 18 will continue applying NZ IAS 1 until 1 January 2027. Additional refinements were made to improve the readability and sequencing of the related amendments to NZ IAS 1 and to distinguish more clearly between amendments applying generally and amendments applying only to this specific group of entities. Collectively, these changes help ensure a coherent transition for entities adopting NZ IFRS 18 and NZ IFRS 20 at different times.

Review of changes

35. These changes were discussed and agreed with the XRB's legal drafter and XRB's lawyer as part of finalising *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*.

36. The IASB has also reviewed the updated standard and do not have any concerns with the proposed publication of NZ IFRS 20 and the associated consequential amendments. The IASB has noted that the changes appear to be limited to jurisdiction-specific drafting and scope considerations, and they have not identified any amendments to the underlying requirements of IFRS 20.

Consistency with Australian Accounting Standards

37. We note the AASB will incorporate the relevant consequential amendments from IFRS 20 into the Australian accounting standards (as AASB 20) to maintain alignment with IFRS Accounting Standards.

Due process

38. The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on any of the Exposure Drafts, however some New Zealand stakeholders did respond directly to the IASB on the 2021 Exposure Draft.

39. The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements).

IASB re-exposure considerations

40. The key changes from the IASB's Exposure Draft in 2021, and the final IFRS 20 standard are outlined below:

Area	**Exposure Draft (July 2021)**	**IFRS 20 (May 2026)**	**Nature of change / IASB rationale**
Overall model	• Introduced the "total allowed compensation" model • Recognised regulatory assets/liabilities for timing differences	• Core model retained. • Articulation refined to clarify what constitutes total allowed compensation and the period to which it relates	Conceptual framework unchanged but clarified to improve operational consistency across jurisdictions.
Scope	• Applied when a regulatory agreement creates enforceable rights/obligations to adjust future rates for timing differences.	• More precise definition of a *regulatory agreement*; clearer criteria for enforceability. • Clarified that IFRS 20 is mandatory and not sector-specific.	Reduces ambiguity, especially in hybrid or multi-layer regulatory environments.
Regulatory assets definition	• Present right to add amounts to future regulated rates due to past events.	• Clarified that the right must be *enforceable* and *present* at the reporting date. • Guidance on identifying the "past event" that gives rise to the right.	Addresses concerns about premature recognition and diversity in interpretation.
Regulatory liabilities definition	• Present obligation to deduct amounts from future regulated rates due to past events.	• Clarified when obligations arise, including for performance penalties, clawbacks, and incentive mechanisms.	Improves consistency in recognising obligations tied to performance metrics.
Measurement basis	• Expected cash flow approach • Discounting required when a significant financing component exists.	• Expected cash flow approach retained but with refined guidance on discounting, inflation indexation, regulatory interest/return, and estimating cash flows.	Responds to feedback that the measurement guidance was too rigid and did not reflect regulatory economics in many jurisdictions.
Discount rate	• Discount when a significant financing component exists • Limited guidance on determining the rate.	• Clearer rules on when discounting is required. • Guidance on determining discount rates, including treatment of regulatory interest and risk adjustments.	Major refinement — addresses concerns about mismatches between regulatory and IFRS discounting mechanics.
Inflation / indexation	• Proposed specific treatment for index-linked adjustments.	• Revised to better reflect economic substance. • Clarified how inflation adjustments interact with	Addresses concerns that the approach could distort measurement in high-inflation or index-linked regimes.

Area	Exposure Draft (July 2021)	IFRS 20 (May 2026)	Nature of change / IASB rationale
		discounting and regulatory returns.	
Regulatory returns on construction work in progress (CWIP)	• Proposed recognition of regulatory returns during construction if they relate to current-period service.	• Clarified when returns relate to construction vs service provision. • Refined guidance to align with IFRS 15 and regulatory practice.	Reduces risk of recognising returns too early or inconsistently across industries.
Interaction with IFRS 15	• Required separate presentation of regulatory income/expense; limited guidance on linking to revenue.	• Strengthened linkage between regulatory adjustments and IFRS 15 revenue. • Clarified how timing differences interact with performance obligations.	Improves comparability and reduces confusion about "double counting" revenue.
Interaction with IAS 12 (Income Taxes)	• Proposed recognition of deferred tax effects arising from regulatory timing differences.	• Refined guidance to avoid double recognition and ensure alignment with IAS 12 principles.	Addresses concerns raised by preparers and auditors about complexity and mismatches.
Interaction with IAS 36 (Impairment)	• Limited guidance.	• Clarified how regulatory assets are tested for impairment and how cash-generating units should incorporate regulatory balances.	Provides operational clarity for utilities with large regulated asset bases.
Presentation	• Required separate line items for regulatory assets/liabilities and regulatory income/expense.	• Retained but with more structured presentation requirements. • Clarified classification between current and non-current.	Enhances transparency and comparability.
Disclosures	• Required disclosures on nature of regulation, risks, and reconciliation of balances.	• Expanded disclosures with more granular reconciliations. • Clearer explanation of regulatory mechanisms, and enhanced qualitative disclosures.	Responds to investor feedback for more decision-useful information.
Transition	• Full retrospective application unless impracticable • Effective date set for 2027.	• More transition relief, including modified retrospective option and relief for discount rate determination. • Effective date set for 2029.	Reduces implementation burden and cost, especially for large utilities.

41. The IASB has noted throughout their Basis for Conclusion on IFRS 20 three core reasons for why re-exposure of the requirements was not considered necessary:

    (a) **Stakeholder feedback showed broad support and no fundamental changes were made** – The IASB did not re-expose the proposals because feedback showed strong support for the Exposure Draft's core principle that entities should recognise the total allowed compensation in the same reporting period (BC9). Respondents agreed with the definitions, scope and overall model (BC11–BC14), and clarifications made

after consultation simply made the requirements clearer (BC41). Since the fundamental approach remained intact, further consultation was unnecessary.

(b) **Changes made after the Exposure Draft were responsive clarifications, not conceptual reversals** – The IASB concluded that re-exposure was not required because post-Exposure Draft changes were limited to clarifications—such as enforceability (BC35–BC37), regulatory returns (BC67–BC79), and discounting simplifications (BC214–BC222)—rather than conceptual changes. For example, the minimum interest rate proposal was removed because the costs would outweigh the benefits (BC222). These refinements did not alter the underlying model, so re-consultation was not considered necessary.

(c) **The IASB judged that re-exposure would not provide new information** – The IASB judged that re-exposure would not provide new insights because the final requirements remained consistent with the cash-flow-based measurement approach (BC170) and use of the regulatory interest rate (BC207). The IASB noted that regulatory cash flows are generally stable and predictable (BC128), and no changes were made that would reasonably change stakeholder views and so re-consultation was not warranted.

42. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the Exposure Draft and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's July 2024 meeting, and all 14 IASB members (at the time) agreed with this decision.

43. The Due Process Oversight Committee (DPOC) also considered the due process lifecycle review of this project in June 2025, covering the entire development of the rate regulated activities project, and confirmed that all due process requirements had been met. The DPOC, in July 2025, considered stakeholder concerns about non re-exposure of the standard, but continued to treat the project as having completed its due-process steps.

44. Based on the IASB's conclusions, the independent review performed by the DPOC and the rationale for the IASB's decisions being explained publicly within their Basis for Conclusions, we consider the IASB's due process to be reasonable. Given the XRB's financial reporting strategy to align with IFRS requirements and as this has been issued by the IASB as a final IFRS Accounting Standard, the NZASB do not consider it appropriate to perform any further consultations on these requirements prior to issuing the NZ IFRS Accounting Standard.

Due process conclusion

45. 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.

46. 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

47. 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.

48. We have considered whether any modifications are needed to ensure consistency with the abovementioned legislative restrictions. Within Appendix C, paragraph C3, the wording "retrospectively" has been changed to "as if it had always been applied" which is in line with modifications made to other NZ IFRS Accounting Standards.

49. We note that Appendix C also refers to "modified retrospective approach" which is a commonly used term and understood by New Zealand reporting entities and stakeholders. We have not made any amendments to the 'retrospective' wording in this respect as it would cause more confusion for stakeholders, and the use of modified retrospective approach means that the legislation does not have retrospective effect.

Mandatory date

50. NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* will be applicable to New Zealand for-profit entities for annual reporting **periods beginning on or after 1 January 2029** – 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).

51. This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

52. Modifications have been made to the commencement data paragraphs within the standard to ensure these comply with the Parliamentary Counsel Office's best practice guidelines around the commencement dates, and the above requirements.

Early Adoption consideration

53. Entities that apply NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* for an 'early adoption accounting period' should also apply *Consequential amendments to NZ IFRS Accounting Standards due to NZ IFRS 20* at the same time.

Revocation of NZ IFRS 14 *Regulatory Deferral Accounts*

54. When the IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities*, the IASB also agreed to revoke IFRS 14 *Regulatory Deferral Accounts*, effective from the same mandatory date of 1 January 2029.

55. As such, NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* is a replacement for NZ IFRS 14 *Regulatory Deferral Accounts* and is intended to provide consistent requirements for accounting for rate regulation as opposed to the local jurisdictional requirements which were grandfathered into NZ IFRS 14.

56. We consider the same due process followed on NZ IFRS 20 above applies to the revocation of NZ IFRS 14, as clear messaging has been provided at all stages of the IASB

project that IFRS 20 was developed as a replacement for IFRS 14. Both NZ IFRS 20 and NZ IFRS 14 are equivalent to the respective international standards, and as such, NZ IFRS 20 is an appropriate replacement to NZ IFRS 14.

57. NZ IFRS 14 continues to remain in force until NZ IFRS 20 is adopted by entities and would not be allowed to be used for reporting periods beginning on or after 1 January 2029.

Adoption and implementation support

58. Although NZ IFRS 20 will not become mandatory until annual reporting periods beginning on or after 1 January 2029, the requirements are complex and are expected to result in implementation and ongoing costs for affected entities and other stakeholders, including auditors, users and regulators. Early engagement and education will therefore be important to support consistent and effective implementation in New Zealand.

59. The XRB has taken a proactive approach to raising awareness of the new Standard and engaging with stakeholders who are likely to be affected. We have contacted the Commerce Commission to highlight the issuance of IFRS 20 and discuss the potential implications for entities subject to economic regulation in New Zealand.

60. The XRB also has been presented an opportunity to engage with the Utilities Networks CFO Forum in November 2026 (which will include many of the affected organisations with attendees from electricity distribution businesses, gas pipeline distributors and fibre network entities) for education and awareness purposes.

61. This engagement will provide an early opportunity to:

- Raise awareness of the scope, key requirements and effective date of NZ IFRS 20;
- Encourage affected entities to begin assessing whether their regulatory agreements give rise to regulatory assets or regulatory liabilities;
- Highlight areas that may require early consideration, including data requirements, systems and processes, measurement, presentation and disclosures;
- Hear directly from regulated entities about anticipated implementation challenges and areas where further guidance or education may be useful (noting they would not have had much time to consider NZ IFRS 20); and
- Inform the XRB's broader approach to implementation support ahead of the mandatory application date.

62. The XRB intends to use feedback from this engagement, together with ongoing discussions with regulated entities, regulators (Commerce Commission), auditors and other relevant stakeholders, to determine what further implementation support may be appropriate.

63. This could include targeted education, stakeholder forums, implementation-focused communications, or links to relevant IASB educational material. This approach will help the XRB identify New Zealand-specific application matters early and promote consistent and high-quality implementation of NZ IFRS 20.

XRB signing memorandum

64. 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.

65. 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 *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* and revoke *NZ IFRS 14 Regulatory Deferral Accounts* should be signed by the Chair of the NZASB.

Questions for Board:

Q1. Does the Board **APPROVE** for issue *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* (subject to the approval of the Chair of the External Reporting Board of the standard and subject to the approval of the Chief Executive of the XRB of the Consistency Accountability Statement)?

Q2. Does the Board **APPROVE** the revocation of *NZ IFRS 14 Regulatory Deferral Accounts* (subject to the approval of the Chair of the External Reporting Board of the standard and subject to the approval of the Chief Executive of the XRB of the Consistency Accountability Statement)?

Q3. 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 NZ IFRS 20 and revoke NZ IFRS 14?

Q4. Does the Board **APPROVE** the benefit and cost analysis within the Appendix to the Consistency Accountability Statement assessment memorandum?

Consistency Accountability Statement (CAS) assessment

66. 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.

67. 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.

68. 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).

69. We have assessed *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*, 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.

Question for Board:

Q5. Does the Board **AGREE** with the Consistency Accountability Statement memorandum, which will be used to support the Chief Executive's assertion in the CAS that:

- The External Reporting Board has assessed this standard, 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, and
- This assessment identified no inconsistencies with the principles of responsible regulation?

Application of the PBE Policy Approach – NZ IFRS 20

70. As NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* is a new principal standard which applied to for-profit entities only, we are required to apply the Public Benefit Entity (PBE) Policy Approach to determine whether to propose amendments to the PBE Standards.

71. The PBE Policy Approach establishes a rebuttable presumption that, in the case of limited-scope amendments or amendments to an NZ IFRS that the NZASB considers are minor, the NZASB should not incorporate the change into the equivalent PBE Standard in advance of the IPSASB.

72. The table below considers the factors in the development principle as it applies to *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*.

Are the requirements minor?
No. These requirements are significant for entities which are subject to rate regulation. However, we do not expect these amendments to widely impact NZ PBEs due to a lack of rate regulation within New Zealand for this sector. Most rate regulation in New Zealand is focussed on utility and infrastructure suppliers which are currently designated as for-profit entities, run through State-Owned Enterprises (SOEs). We note that some regulated suppliers (8 in total) use PBE Standards as the basis for regulatory reporting methodologies, valuation approaches, or GAAP definitions within the Part 4 Commerce Act 1986 regime. As such, any PBE standard on rate regulated activities may impact on these entities. The most significant PBE reporting entities which would be significantly impacted would be the Financial Statements of the Government (FSG) which consolidates several for-profit rate-regulated entities, as well as Local Authorities and Consumer Trusts which own some Electricity Distribution Businesses.
Will the IPSASB consider these amendments in an acceptable timeframe?
As part of the IPSASB 2025 Work Programme Consultation, the IPSASB staff have noted in their analysis that an IPSASB project on rate-regulated activities was

recommended by a few respondents. IPSASB staff also noted there does not appear to be as much demand to prioritise such a project at this time, compared to demand for five other selected themes/projects. As such, the IPSASB do not consider an alignment project on IFRS 20 to be a priority at present.

The IPSASB's most recent IPSAS-IFRS Alignment Dashboard does not indicate when they plan to address these amendments. We do not expect the IPSASB to consider these amendments in an acceptable timeframe as they have noted they only have resources to take on one new financial reporting project will become available in late 2026/early 2027 (and there are at least five other projects which are higher priority than an alignment project on IFRS 20). In September 2026, the IPSASB approved which financial reporting projects to include on their workplan (across 2026-2028), which did not include an IFRS 20 alignment project.

The IPSASB have also noted that they have received feedback to have a period of stability going forward and focus on supporting the implementation and application of their existing standards and not introduce significant new accounting requirements until new standards are implemented for a period. The IPSASB plan to consult with stakeholders later in 2026 around such a strategic approach would look like.

Will the potential development lead to higher quality financial reporting?

Yes. This new practical standard introduces a requirement which aims to provide users with information on regulatory assets and regulatory liabilities in the statement of financial position, and related regulatory income and regulatory expense in the statement of financial performance.

This information would help stakeholders understand which fluctuations in the relationship between an entity's revenue and expenses are caused by those differences in timing so that they can make better assessments of the entity's prospects for future cash flows. Given the public interest in utility prices and scrutiny on utility profits, there is greater demand in the public sector for more transparent reporting of utility prices and how revenue is generated.

We note that AASB 20 in Australia will apply to both for-profit and public sector entities and they are currently considering what modifications may be needed to ensure these requirements work appropriately in the Australian public sector. As such, public sector entities in Australia will be using the core principles of IFRS 20 in their reporting, where rate regulation is applicable.

Will the benefits outweigh the costs?

Relevant to the PBE sector as a whole? – We note that some regulated suppliers use PBE Standards as the basis for regulatory reporting methodologies, valuation approaches, or GAAP definitions within the Part 4 Commerce Act 1986 regime. As such, any PBE standard on rate regulated activities may impact on these entities. Any PBE Standards will also impact on the Government consolidated reporting entity, as well as Local Authorities and Consumer Trusts which own some Electricity Distribution Businesses. which are also significant PBE reporting entity.

Impact on mixed groups? – We note that several of the regulated entities in NZ which will apply NZ IFRS 20 are owned by the Government and will consolidate into the Financial Statements of the Government (FSG) or owned by Local Authorities and Consumer Trusts. Developing amendments to the PBE Standards would promote a consistent approach and would have a positive impact on mixed groups, as all regulatory balances will need to be eliminated upon consolidation without equivalent PBE requirements.

While these requirements would help improve the recognition of regulatory assets and liabilities and provide a faithful representation of the regulatory income and expenses entities are expected to earn from third parties, we note the elimination process to remove these balances from FSG would be simple and not result in significant costs.

Impact on coherence of the suite of PBE Standards? – This new principal standard develops a principle which complement the principles within other PBE standards so the coherence of the suite of PBE Standards would be maintained.

Whether the benefits outweigh the costs in NZ? – We consider the benefits of incorporating the amendments into the PBE standards could outweigh the costs of doing so ahead of the IPSASB, as this would provide for more efficient consolidation processes for the FSG, Local Authorities and Consumer Trusts and provide more faithful representation of these balances in the consolidated financial statements.

However, we note we have nave not fully assessed the PBE sector, and recent reforms within the public sector (around water entities which may be subject to price-minimum regulations which are unique) means further consideration is still needed on the form and nature of rate regulation within the PBE sector in order to fully evaluate whether the benefits would outweigh the costs.

73. Based on the above, we consider there is merit in exploring whether the NZASB should rebut the presumption that the NZASB will not incorporate the amendments into the equivalent PBE Standards in advance of the IPSASB for IFRS 20. We note NZ IFRS 20 is applicable for periods beginning 1 January 2029 and as such there is some time before any potential PBE consolidation issues may arise in practice.

74. Therefore, we would appreciate the Board's feedback on whether a PBE Standard based on these amendments, with the aim to maintain alignment with NZ IFRS 20 (as much as possible) to help with the PBE consolidation processes would be beneficial. We are not asking the Board to agree to rebut the presumption within the PBE policy approach at this stage, but based on the Board's feedback, will look to provide a recommendation on the PBE policy approach in 2027.

75. The exact timing of when the XRB could commence any potential project will be based on the availability of resources and current priorities on the Accounting Standards workplan.

Question for Board:

Q6. Does the Board have any **FEEDBACK** on whether to develop a PBE Standard based on NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* in advance of the IPSASB?

XRB 2026/62

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 29 October 2026 and takes effect on 26 November 2026. There is an explanatory note at the end of this standard that includes an explanation of how and from when this standard operates

New Zealand Equivalent to International Financial Reporting Standard 20 *Regulatory Assets and Regulatory Liabilities*

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 paragraph

Title **0.1**

Commencement **0.2**

Interpretation **0.3**

Application **0.4**

Revocation **0.6**

Transitional, savings, and related provisions **0.7**

Objective **1**

Scope ..... **NZ 4.1**

Regulatory assets, regulatory liabilities, regulatory income and regulatory expense ... **6**

Unit of account **24**

Recognition **26**

Derecognition **32**

Measurement **34**

Classification and presentation **62**

Disclosure **68**

Appendix A Defined Terms

Appendix B Application Guidance

Appendix C Commencement and Application, Transition and Revocation

Appendix D Amendments to other NZ IFRS Accounting Standards

Appendix E Requirements for an entity that applies this standard before applying NZ IFRS 18

Schedule 1 Transitional, savings, and related provisions

Title

0.1 This Standard is the New Zealand Equivalent to International Financial Reporting Standard 20 *Regulatory Assets and Regulatory Liabilities* **(NZ IFRS 20)**.

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).

Interpretation

0.3 In this Standard:

NZ IFRS 20 means the New Zealand Equivalent to International Financial Reporting Standard 20 *Regulatory Assets and Regulatory Liabilities*.

NZ IFRS means New Zealand Equivalent to International Financial Reporting Standard.

NZ IAS means New Zealand Equivalent to International Accounting Standard.

NZ IFRIC means New Zealand Equivalent to IFRIC Interpretation.

NZ SIC means New Zealand Equivalent to SIC Interpretation.

Application

0.4 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 **mandatory date**.

0.5 In paragraph 0.4:

early adopter means a reporting entity that applies this standard for an early adoption accounting period

early adoption accounting period means an accounting period of the early adopter:

(a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

(b) for which the early adopter:

(i) first applies this standard in preparing its financial report; and

(ii) discloses in its financial report for that accounting period that this standard has been applied for that period.

mandatory date means 1 January 2029.

Revocation

0.6 The New Zealand Equivalent to International Financial Reporting Standard 14 *Regulatory Deferral Accounts* (**NZ IFRS 14**) is revoked on the mandatory date, but–

(a) for any entity other than an early adopter, NZ IFRS 14 continues to apply in relation to accounting periods that begin before the mandatory date:

(b) for an early adopter, NZ IFRS 14 ceases to apply in relation to all early adoption accounting periods.

Transitional, savings, and related provisions

0.7 The transitional, savings, and related provisions set out in Schedule 1 have effect according to their terms.

Objective

1 The objective of this Standard is to require an entity to provide relevant information that faithfully represents how *regulatory income* and *regulatory expense* affect the entity's financial performance, and how *regulatory assets* and *regulatory liabilities* affect its financial position. To achieve this objective, the standard sets out requirements for the recognition, measurement, presentation and disclosure of regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

2 Regulatory assets and regulatory liabilities are a subset of the rights and obligations created by a *regulatory agreement*. Information about this subset of rights and obligations enables users of financial statements to understand:

(a) an entity's regulatory income and regulatory expense, which arise from the regulatory assets and regulatory liabilities. That understanding, together with information required by other NZ IFRS Accounting Standards, will provide insights into the *total allowed compensation* for *regulatory goods or services* supplied by the entity in a reporting period, and hence into the entity's financial performance and prospects for future cash flows.

(b) an entity's regulatory assets and regulatory liabilities. That understanding will provide insights into the entity's financial position at the end of a reporting period and the amount, timing and uncertainty of the entity's future cash flows.

3 Total allowed compensation is the amount of compensation to which a regulatory agreement entitles an entity for regulatory goods or services supplied in a reporting period. The amount might be charged through *regulated rates*—and hence included in revenue from contracts with *customers* recognised applying NZ IFRS 15 *Revenue from Contracts with Customers* (such revenue is referred to in this standard as NZ IFRS 15 revenue)—in either the same period as the entity supplies the regulatory goods or services, or a different period. The standard establishes definitions of a regulatory asset and a regulatory liability, and resulting definitions of regulatory income and regulatory expense, based on the principle that an entity recognises the total allowed

compensation for regulatory goods or services in the same reporting period that the entity supplies those regulatory goods or services.

Scope

NZ 4.1 This Standard applies to Tier 1 and Tier 2 for-profit entities.

4 An entity shall apply this standard to all its regulatory assets and all its regulatory liabilities, except for regulatory assets and regulatory liabilities that arise if premiums charged in insurance contracts within the scope of NZ IFRS 17 *Insurance Contracts* are regulated.

5 This Standard specifies how to account for regulatory assets and regulatory liabilities and the resulting regulatory income and regulatory expense. Its application results in information that supplements the information provided by applying other NZ IFRS Accounting Standards, primarily information about revenue from contracts with customers recognised applying NZ IFRS 15. An entity shall apply other NZ IFRS Accounting Standards to account for rights and obligations created by a regulatory agreement before applying this standard.

Regulatory assets, regulatory liabilities, regulatory income and regulatory expense

6 A regulatory asset is an enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be charged to customers in future periods because part or all of the total allowed compensation for regulatory goods or services already supplied has not yet been included in NZ IFRS 15 revenue. A right to add an amount in determining a future regulated rate for any other reason is not a regulatory asset.

7 A regulatory liability is an enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because part or all of the total allowed compensation for regulatory goods or services to be supplied in the future has already been included in NZ IFRS 15 revenue. An obligation to deduct an amount in determining a future regulated rate for any other reason is not a regulatory liability.

8 In determining whether a regulatory asset or a regulatory liability exists, an entity shall assess whether it has an enforceable present right to add, or an enforceable present obligation to deduct, an amount in determining a regulated rate to be charged to customers in future periods (see paragraphs B3–B7).

9 A regulatory asset or a regulatory liability can exist only if:

(a) an entity and a *regulator* are parties to a regulatory agreement that prescribes the regulated rate the entity charges for goods or services it supplies to customers (see paragraphs 11–13); and

(b) part or all of the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period is charged to customers through regulated rates in a different period (past or future), creating a difference in timing (see paragraphs 14–23).

10 Regulatory income and regulatory expense are income or expense arising from changes in a regulatory asset or regulatory liability. Not all changes in regulatory assets or regulatory liabilities give rise to regulatory income or regulatory expense—for example, the acquisition of regulatory assets or assumption of regulatory liabilities in a business combination does not give rise to regulatory income or regulatory expense. In addition, exchange differences resulting from translation into a presentation currency in accordance with NZ IAS 21 *The Effects of Changes in Foreign Exchange Rates* are not regulatory income or regulatory expense.

Regulatory agreement and regulator

11 A regulatory agreement is an agreement that creates a set of enforceable rights and enforceable obligations that prescribes how a regulator determines a regulated rate (or a range for the regulated rate) that an entity charges for goods or services supplied to customers in a period. A regulator is a body that is required by law or regulation to apply a regulatory agreement to determine a regulated rate (or a range for the regulated rate—see paragraphs B8–B10).

12 The legal forms of regulatory agreements vary by jurisdiction and industry. For example, a regulatory agreement might take the form of:

(a) a contractual licensing agreement;

(b) a service concession arrangement; or

(c) a set of rights and obligations specified by law or regulation.

13 A regulatory agreement might create only regulatory assets, only regulatory liabilities or both regulatory assets and regulatory liabilities.

Total allowed compensation and differences in timing

14 Total allowed compensation is the amount of compensation to which a regulatory agreement entitles an entity for regulatory goods or services supplied in a reporting period. The amount might be charged through regulated rates in either the same period as the entity supplies the regulatory goods or services, or a different period.

15 Regulatory goods or services are goods or services supplied by an entity to comply with a regulatory agreement. Regulatory goods or services supplied in a period might include, for example:

(a) supplying goods or services to customers;

(b) maintaining a network, including routine maintenance, and being ready to repair damage to the network;

(c) making changes to the capacity of a network (for example, additions and upgrades or decommissioning); and

(d) satisfying other objectives set by the regulator as part of the regulatory agreement (for example, improving the quality and efficiency of services supplied to customers, or decreasing or increasing customer usage).

16 The amount of NZ IFRS 15 revenue an entity recognises in a reporting period depends on the regulated rate charged for goods or services the entity supplies to customers in the period. In some cases, that amount of NZ IFRS 15 revenue differs from the total allowed compensation for regulatory goods or services supplied by the entity in the reporting period. Specifically, the amount differs if part or all of the total allowed

compensation for regulatory goods or services supplied in the period is included in determining the regulated rates charged to customers in a different period (past or future). Such differences in timing might give rise to regulatory assets or regulatory liabilities.

Example
To illustrate a difference in timing described in paragraph 16, assume that the regulated rate an entity charged for goods or services supplied to customers in 20X1 was based on estimated input costs of CU100.[1] However, the entity recognised actual input costs in that year of CU120. Assume also that the regulatory agreement gives the entity an enforceable present right to add the resulting CU20 under-recovery of those input costs in determining the regulated rate to be charged to customers in 20X2.[2] In this example, the entity's NZ IFRS 15 revenue for 20X1 includes compensation of CU100 based on the estimated input costs. Compensation for the CU20 under-recovery of input costs in 20X1 will be added in determining the regulated rates to be charged to customers in 20X2, and hence will be included in NZ IFRS 15 revenue in 20X2. However, that compensation of CU20 forms part of the total allowed compensation for regulatory goods or services supplied in 20X1, not for those supplied in 20X2—the total allowed compensation for regulatory goods or services supplied in 20X1 is CU120.

17 Applying NZ IFRS 15 could also result in a difference between the period in which an entity supplies goods or services to customers and the period in which the revenue for those goods or services is recognised. For example, such a difference might arise if the entity supplies goods or services to a customer but, applying paragraph 56 of NZ IFRS 15, the entity constrains the estimates of variable consideration until the associated uncertainty is resolved. Such differences do not give rise to regulatory assets or regulatory liabilities.

18 To supplement the information an entity provides by applying NZ IFRS 15, this standard sets out requirements for the recognition of regulatory income and regulatory expense. The definitions of a regulatory asset and a regulatory liability, and resulting definitions of regulatory income and regulatory expense, are based on the principle that an entity recognises the total allowed compensation for regulatory goods or services supplied by the entity in the same reporting period that the entity supplies those regulatory goods or services.

19 Table 1 sets out the most common types of compensation provided or deductions made by regulatory agreements through regulated rates, and establishes when the compensation or deductions form part of total allowed compensation.

	Table 1—Types of compensation provided or deductions made by a regulatory agreement through regulated rates

[1] Monetary amounts are denominated in 'currency units' (CU).
[2] For simplicity, this example ignores the effect of regulatory interest.

	Compensation or deductions	**When the compensation or deductions form part of total allowed compensation**
1	Compensation for *allowable expense*s and deductions for *chargeable income*	In the reporting period in which an entity recognises allowable expenses or chargeable income by applying NZ IFRS Accounting Standards (see paragraphs B13–B25).
2	*Regulatory returns* except for those identified in row 3 of this table	In the reporting period in which a regulatory agreement applies a rate of return to a *regulatory capital base* (see paragraphs B30–B34).
3	Regulatory returns (or part of the regulatory returns) treated as compensation for borrowing costs that are capitalised by an entity applying NZ IAS 23 *Borrowing Costs*, in the specific circumstances set out in paragraph B35	In the reporting period in which an entity recognises the borrowing costs as an expense (see paragraphs B35–B40).
4	Compensation or deductions for performance incentives	In the reporting period in which an entity's performance occurs (see paragraphs B41–B50).
5	Compensation for inflation provided separately from *regulatory depreciation*	In the reporting period in which the inflation arises (see paragraphs B53–B54).

20 In addition, for the purpose of applying this standard, an entity shall treat compensation provided by inflation adjustments to the regulatory capital base as forming part of the total allowed compensation for the reporting period in which the inflation is recovered through regulatory depreciation included in determining the regulated rates charged to customers (see paragraph B52).

21 The terms of regulatory agreements vary by jurisdiction and industry. Accordingly, a regulatory agreement might not provide all the types of compensation or make all the types of deductions described in paragraphs 19–20, might provide other types of compensation or make other types of deductions or might use different terminology to refer to the types of compensation or deductions described in paragraphs 19–20. An entity shall use its judgement in analysing the terms and conditions of a regulatory agreement to determine what types of compensation or deductions the regulatory agreement provides or makes. If the regulatory agreement provides a type of compensation or makes a type of deduction other than those described in paragraphs 19–20, the entity shall use its judgement to determine when that compensation or deduction forms part of total allowed compensation.

22 Paragraphs B13–B54 describe when differences in timing might arise from the compensation or deductions described in paragraphs 19–20.

23 Differences in timing might also arise from the under-recovery or over-recovery of *allowed revenue* as described in paragraphs B57–B58.

Unit of account

24 An entity shall account for the right or obligation arising from an individual difference in timing—or from a group of differences in timing that are created by the same regulatory agreement, have similar expiry patterns and are subject to similar risks—as a single unit of account.

25 An entity is permitted to apply paragraph B37 to determine an individual difference in timing arising from part or all of the regulatory return that is treated as compensation for capitalised borrowing costs. An entity shall apply paragraph B66 to determine an individual difference in timing arising from regulatory depreciation of a regulatory capital base that has a direct relationship with depreciable or amortisable assets (as described in paragraph B64).

Recognition

26 Except as specified in paragraphs 29 and 31, an entity shall recognise:

(a) all regulatory assets and all regulatory liabilities existing at the end of a reporting period; and

(b) all regulatory income and all regulatory expense arising during a reporting period.

Existence uncertainty

27 If there is uncertainty about whether a regulatory asset or regulatory liability exists, an entity shall assess whether the regulatory asset or regulatory liability is more likely than not to exist. If the regulatory asset or regulatory liability is more likely than not to exist, and meets the criteria specified in paragraph 29 or 31 if applicable, the entity shall recognise it.

28 Uncertainty about the existence of a regulatory asset or regulatory liability might arise from uncertainty about the existence of a present right or present obligation, uncertainty about the enforceability of the present right or present obligation, or uncertainty about both existence and enforceability. The existence of a present right or present obligation does not need to be certain for an entity to be able to assess its enforceability. An entity shall consider both types of uncertainty and make a combined assessment of whether it is more likely than not that an enforceable present right or enforceable present obligation exists.

Recognition criterion for a regulatory asset or regulatory liability arising from regulatory depreciation of a regulatory capital base

29 An entity shall recognise a regulatory asset or regulatory liability arising from regulatory depreciation of a regulatory capital base if, and only if, the regulatory capital base has a direct relationship with a related item or items (see paragraph B59). A related item is an item that gives rise to amounts for which a regulatory agreement

creates a right to compensation to be provided, or an obligation for a deduction to be made, through regulatory depreciation.

30 An entity's regulatory capital base has a direct relationship with a related item or items if the entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from the related item or items (see paragraphs B60–B72).

Recognition criterion for a regulatory asset or regulatory liability arising from compensation based on a benchmark determined using unobservable inputs

31 Compensation for an allowable expense might be based on a benchmark (for example, the actual expenses of an entity's peer group). In some cases, the benchmark is determined using unobservable inputs, and the regulator determines the compensation only after the entity's financial statements are authorised for issue. In such cases, an entity shall recognise any resulting regulatory asset or regulatory liability only when the regulator determines the compensation based on the actual benchmark.

Derecognition

32 An entity shall derecognise part or all of a regulatory asset or regulatory liability when that part or all of the amount recognised no longer meets the definition of a regulatory asset or regulatory liability. For example:

(a) when the entity recovers part or all of a regulatory asset or fulfils part or all of a regulatory liability and, applying paragraph 53(a), updates the estimates of future cash flows.

(b) when part or all of a regulatory asset is settled or when part or all of a regulatory liability is waived by a regulator or another party. In such cases, an entity shall:

(i) recognise an asset or liability if required by other NZ IFRS Accounting Standards (for example, a financial asset or financial liability recognised by applying NZ IFRS 9 *Financial Instruments*); and

(ii) recognise in profit or loss the difference between the amount derecognised and any new asset or new liability recognised by applying another NZ IFRS Accounting standard.

33 An entity shall also derecognise part or all of a regulatory asset or regulatory liability when that part or all of the regulatory asset or regulatory liability no longer meets the recognition criteria set out in paragraph 27 or 29. In such cases, an entity shall derecognise the part of the regulatory asset or regulatory liability that no longer meets the recognition criteria and recognise any related regulatory expense or regulatory income in profit or loss.

Measurement

34 Except as specified in paragraph 60, an entity shall measure regulatory assets and regulatory liabilities using a cash-flow-based measurement technique that:

(a) includes an up-to-date estimate of all future cash flows arising from the recovery of a regulatory asset or fulfilment of a regulatory liability (see paragraphs 35–44 and 52–57); and

(b) discounts those estimated future cash flows using the *regulatory interest rate* (see paragraphs 45–52 and 56–57).

Initial measurement

Estimating future cash flows

Identifying future cash flows

35 To apply paragraph 34(a), an entity shall include all estimated future cash flows arising from the recovery of a regulatory asset or fulfilment of a regulatory liability that are within the boundary of the regulatory agreement, and only those cash flows. Such cash flows comprise:

(a) cash flows for which an entity has an enforceable present right to add amounts, or an enforceable present obligation to deduct amounts, in determining the regulated rates to be charged to customers in future periods. The future periods are those in which the entity has an enforceable present right or enforceable present obligation to supply regulatory goods or services.

(b) cash flows for which an entity has an enforceable present right to receive, or an enforceable present obligation to pay, compensation on termination of a regulatory agreement.

36 Paragraphs B73–B87 set out requirements for determining the boundary of a regulatory agreement.

37 To estimate future cash flows, an entity shall consider all reasonable and supportable information that is available at the reporting date without undue cost or effort. The entity shall consider information about past events and about conditions existing at the reporting date. The entity shall also consider information about variables that might affect estimates of future cash flows, namely:

(a) market variables—variables that can be observed in, or derived directly from, markets (for example, interest rates). The entity shall use assumptions about future market variables that are consistent with observable market prices at the reporting date—that is, at the reporting date, the entity shall disregard the effects of possible future changes in market variables.

(b) non-market variables—all other variables other than market variables (for example, the useful life of a depreciable asset). The entity shall use its expectations at the reporting date about future non-market variables, other than future changes in the regulatory agreement or in law or regulation.

38 Cash flows arising from a regulatory asset or regulatory liability include cash flows from regulatory interest specified in a regulatory agreement. However, if an entity elects to apply the exemption from discounting described in paragraph 50, the entity shall, in periods for which it applies the exemption, exclude regulatory interest cash flows from the estimates of future cash flows arising from the regulatory asset or regulatory liability.

Uncertain future cash flows

39 There might be uncertainty about the amount or timing of future cash flows that will arise from a regulatory asset or regulatory liability. Such uncertainty might be caused by, for example, credit risk or demand risk. The effect of credit risk and demand risk on the future cash flows depends on whether the entity or its customers bear the risk (see paragraphs B88–B91).

40 An entity's estimates of future cash flows arising from a regulatory liability shall not reflect non-performance risk of the entity (non-performance risk is defined in NZ IFRS 13 *Fair Value Measurement*).

41 An entity shall estimate uncertain future cash flows using an unbiased range of possible outcomes incorporating the information described in paragraph 37, including outcomes in which the regulatory asset or regulatory liability does not exist, or produces no future cash flows.

42 An entity shall estimate uncertain future cash flows using whichever of these two methods the entity expects to better predict the ultimate cash flow that will occur after the uncertainty is resolved:

(a) the most likely amount, which is the single most likely amount in a range of possible outcomes (that is, a range of possible cash flows). The most likely amount might better predict the ultimate cash flow if the possible cash flows are clustered around one cash flow, or if there are only two possible cash flows and they differ widely.

(b) the expected value, which is the sum of the probability-weighted amounts in a range of possible outcomes. The expected value might better predict the ultimate cash flow if there are many possible cash flows and they are not clustered around one cash flow.

43 In assessing which of the methods described in paragraph 42 would better predict the ultimate cash flow, an entity shall also assess whether a better prediction would result from:

(a) considering separately each regulatory asset and each regulatory liability identified by the entity applying paragraph 24. An entity shall use one of the methods of estimating uncertain future cash flows for some regulatory assets or regulatory liabilities and the other method for other regulatory assets or regulatory liabilities, if the entity expects that doing so will better predict the ultimate cash flow.

(b) considering any regulatory asset or regulatory liability together with other regulatory assets or regulatory liabilities. If such a grouping will better predict the ultimate cash flow, the entity shall apply the method that it expects will provide the better prediction to all the regulatory assets and regulatory liabilities in the group.

Foreign currency amounts

44 If regulated rates charged to customers are denominated in a foreign currency, an entity shall treat any related regulatory assets or regulatory liabilities as monetary items when applying NZ IAS 21.

Discounting estimated future cash flows

45 Except as specified in paragraph 50, an entity shall discount the estimated future cash flows arising from a regulatory asset or regulatory liability using the regulatory interest rate specified or implied by the regulatory agreement for that regulatory asset or regulatory liability.

46 For a regulatory asset or regulatory liability that arises from regulatory depreciation of a regulatory capital base, the regulatory interest rate is the rate of return that the regulatory agreement applies to the regulatory capital base (see paragraph B30).

47 In some cases, an entity shall derive an implied regulatory interest rate from the terms of a regulatory agreement instead of using the interest rate specified in the regulatory agreement (see paragraphs 48–50).

An implied regulatory interest rate

48 An entity shall derive an implied regulatory interest rate if the regulatory agreement includes any of these terms:

(a) it specifies uneven interest rates over the life of a regulatory asset or regulatory liability. For example, a period of time might elapse between an entity recognising a regulatory asset or regulatory liability and a regulatory agreement starting to apply an interest rate to that regulatory asset or regulatory liability (see paragraph 50).

(b) it specifies an interest rate that does not apply to regulatory interest accrued in past periods, instead of a compound interest rate.

(c) it does not specify an interest rate but instead adjusts the amount of compensation provided or a deduction made for an item to also provide compensation or make a deduction for the time period until the recovery of the related regulatory asset or the fulfilment of the related regulatory liability. An entity shall use its judgement to determine whether a regulatory agreement provides compensation or makes a deduction for such a time period. Not all regulatory agreements specify an interest rate or provide compensation or make a deduction for such a time period, in which case the regulatory interest rate is nil.

49 In the cases described in paragraph 48, an entity shall determine the implied regulatory interest rate as the rate that at initial recognition discounts the estimates of future cash flows arising from a regulatory asset or regulatory liability, which include regulatory interest cash flows (see paragraph 38), back to an amount that equals the sum of the estimated future cash flows, excluding regulatory interest.

50 In some cases, an entity expects the period between the recognition of a regulatory asset or regulatory liability and the date when an interest rate specified in the regulatory agreement starts to apply to be one year or less. In such cases, the entity need not discount the estimated future cash flows arising from the regulatory asset or regulatory liability during that period. If the entity elects to apply that exemption, the entity shall discount the estimated future cash flows once the interest rate specified in the regulatory agreement starts to apply.

Regulatory interest rates linked to interest rate benchmarks

51 The uneven interest rates described in paragraph 48(a) do not include interest rates specified in a regulatory agreement that are linked to an interest rate benchmark. In such cases, applying paragraph 37(a), the entity shall disregard possible future changes in the interest rate benchmark until they occur, at which time the entity shall apply paragraphs 56–57.

Subsequent measurement

52 In measuring a regulatory asset or regulatory liability after its initial recognition, an entity shall at the end of each reporting period:

(a) update estimates of the amount and timing of future cash flows arising from the regulatory asset or regulatory liability (see paragraphs 53–57); and

(b) continue to use the discount rate determined at initial recognition, except as described in paragraphs 56–57.

53 An entity shall update the estimated future cash flows arising from a regulatory asset or regulatory liability at the end of each reporting period by applying paragraphs 35–44 to reflect, for example:

(a) recovery of part or all of the regulatory asset or fulfilment of part or all of the regulatory liability; and

(b) any changes in estimates of the amount or timing of future cash flows because of a change in facts or circumstances or because of new information considered in accordance with paragraph 37.

54 Changes in facts or circumstances or new information, as described in paragraph 53(b), include:

(a) resolution of an uncertainty—for example:

(i) confirmation that the entity has met or not met performance criteria or confirmation of the outcome of court rulings; or

(ii) the regulator's agreement or disagreement with regulatory filings made by the entity or by other entities;

(b) actions by a regulator other than those in (a)(ii)—for example, the exercise of a right to renew or terminate a regulatory agreement, causing a change in the boundary of the regulatory agreement (see paragraphs B75–B78);

(c) changes in credit risk or demand risk (see paragraphs B88–B91);

(d) changes in the regulatory interest rate as described in paragraph 56; or

(e) changes in a regulatory agreement or in law or regulation.

55 An entity shall reassess the selected method of estimating uncertain future cash flows arising from a regulatory asset or regulatory liability—determined by applying paragraphs 42–43—if, and only if:

(a) facts or circumstances change or new information becomes available; and

(b) the change or new information might alter the entity's expectation of the method that will better predict the ultimate cash flow.

56 In some cases, the regulatory interest rate specified or implied by a regulatory agreement changes after initial recognition of a regulatory asset or regulatory liability because of a change in:

(a) the regulatory agreement; or

(b) an interest rate benchmark to which the regulatory interest rate is linked.

57 Such a change in the regulatory interest rate changes the future cash flows arising from a regulatory asset or regulatory liability. Consequently, when the regulatory interest rate changes as described in paragraph 56, an entity shall:

(a) update the future cash flows estimated by applying paragraphs 35–44.

(b) discount the estimated future cash flows using the new regulatory interest rate. The new regulatory interest rate is the new interest rate specified in the regulatory agreement or the new implied regulatory interest rate determined applying paragraph 48. The new implied regulatory interest rate discounts all the updated future cash flows to the carrying amount of the regulatory asset or regulatory liability immediately before the new rate applied.

Simplified measurement approach—Items that affect regulated rates only when the related cash is paid or received

58 In some cases, a regulatory agreement provides compensation for an allowable expense or makes a deduction for chargeable income in determining the regulated rates charged to customers only when an entity pays or receives the related cash, or soon after that. A regulatory asset or regulatory liability might arise if, applying NZ IFRS Accounting Standards, the entity recognises the allowable expense or chargeable income in a different reporting period.

59 Similarly, a regulatory asset might arise because a regulatory agreement provides compensation for credit losses in determining the regulated rates only when the regulator determines that there is no reasonable expectation of an entity receiving the related cash, instead of when the entity recognises impairment losses in its financial statements by applying NZ IFRS 9.

60 An entity shall measure a regulatory asset or regulatory liability described in paragraphs 58–59 by:

(a) using the carrying amount of the related liability, related asset or related loss allowance resulting from applying NZ IFRS Accounting Standards.

(b) adjusting that carrying amount to reflect any differences between the related liability, related asset or related loss allowance and the regulatory asset or regulatory liability. Such a difference might be caused by (i) an uncertainty present in the related liability, related asset or related loss allowance but not in the regulatory asset or regulatory liability or (ii) an uncertainty present in the regulatory asset or regulatory liability but not in the related liability, related asset or related loss allowance. Such uncertainties might arise from estimation, credit or demand risk.

61 An entity shall stop applying paragraph 60, and shall thereafter measure any remaining part of the regulatory asset or regulatory liability by applying paragraphs 34–57, when:

(a) for a regulatory asset or regulatory liability described in paragraph 58—the entity pays cash to settle the related liability, or receives cash to recover the related asset;

(b) for a regulatory asset described in paragraph 59—the regulator has determined there is no reasonable expectation of the entity receiving the related cash; or

(c) for a regulatory asset or regulatory liability described in paragraph 58 or 59—the entity derecognises the related liability, related asset or related loss allowance for any other reason.

Classification and presentation

Statement(s) of financial performance

62 Except as required by paragraph 64, an entity shall:

(a) classify all regulatory income and all regulatory expense as revenue; and

(b) present all regulatory income minus all regulatory expense as a line item in the statement of profit or loss.

63 Regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense.

64 In some cases, an entity applying other NZ IFRS Accounting Standards includes an item of expense or income in other comprehensive income. In such cases, the entity shall also include in other comprehensive income regulatory income or regulatory expense relating to that item of expense or income, as specified in paragraph 65. The entity shall:

(a) classify regulatory income and regulatory expense included in other comprehensive income in accordance with paragraph 88 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements*;

(b) present regulatory income or regulatory expense separately from the related expense or related income;

(c) reclassify regulatory income or regulatory expense included in other comprehensive income to the statement of profit or loss if, and only if, the entity reclassifies the related expense or related income to the statement of profit or loss in accordance with other NZ IFRS Accounting Standards; and

(d) classify and present the reclassified regulatory income or regulatory expense in accordance with paragraph 62.

65 The regulatory income or regulatory expense to be included in other comprehensive income is the regulatory income or regulatory expense that arises in a reporting period because an entity recognises the related expense or related income that is included in other comprehensive income in that period. The entity determines such regulatory income or regulatory expense based on the amount of the compensation or deduction for that related expense or related income.

66 To apply paragraph 64(c) when an entity derecognises a regulatory asset or regulatory liability applying paragraph 32(b) or 33, the entity:

(a) shall not reclassify regulatory income or regulatory expense included in other comprehensive income to the statement of profit or loss when the entity derecognises the regulatory asset or regulatory liability; and

(b) shall reclassify any regulatory income or regulatory expense included in other comprehensive income to the statement of profit or loss when the entity reclassifies the related expense or related income to the statement of profit or loss.

Statement of financial position

67 An entity shall present in its statement of financial position:

(a) regulatory assets and regulatory liabilities as line items; and

(b) current and non-current regulatory assets, and current and non-current regulatory liabilities, as separate classifications in accordance with paragraphs 99–102 of NZ IFRS 18, except when the entity presents all assets and liabilities in order of liquidity.

Disclosure

68 The overall objective of paragraphs 69–83 and B95–B97 is to require an entity to disclose in the notes information about the entity's:

(a) regulatory income and regulatory expense that, together with the information required by other NZ IFRS Accounting Standards, will provide insights into the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period, and hence into the entity's financial performance and prospects for future cash flows; and

(b) regulatory assets and regulatory liabilities that will provide insights into the entity's financial position at the end of a reporting period and the amount, timing and uncertainty of the entity's future cash flows.

Regulatory assets and regulatory liabilities and resulting regulatory income and regulatory expense

69 An entity shall disclose information that enables users of financial statements to understand:

(a) the amounts that are recognised in the statement of financial position and statement(s) of financial performance for regulatory assets, regulatory liabilities, regulatory income and regulatory expense; and

(b) the nature of unrecognised regulatory assets or unrecognised regulatory liabilities and the reason they have not been recognised.

70 This information provides insights into:

(a) the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period, in particular the extent to which part or all of the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period was (or will be) included in determining the regulated rates charged to customers—and hence included in NZ IFRS 15 revenue—in a different period; and

(b) the amount, timing and uncertainty of the entity's future cash flows.

71 To achieve the objective set out in paragraph 69, an entity shall apply paragraphs 72–81.

Recognised regulatory assets and recognised regulatory liabilities

72 An entity shall disclose, in a table, reconciliations from the opening to the closing carrying amounts of regulatory assets and from the opening to the closing carrying amounts of regulatory liabilities. In the reconciliations, an entity shall group the changes described in paragraph 73 into:

(a) changes included in the statement of profit or loss;

(b) changes included in other comprehensive income; and

(c) other changes not included in (a) or (b) (see paragraph 73(g)).

73 An entity shall disclose in the reconciliations required by paragraph 72 changes in the carrying amount of a regulatory asset or regulatory liability arising from:

(a) the origination of regulatory assets during the reporting period;

(b) the origination of regulatory liabilities during the reporting period;

(c) the recovery of regulatory assets during the reporting period;

(d) the fulfilment of regulatory liabilities during the reporting period;

(e) regulatory interest income on regulatory assets or regulatory interest expense on regulatory liabilities;

(f) other components of regulatory income or regulatory expense—for example, changes in the carrying amount of a regulatory asset or regulatory liability arising from remeasurements of the regulatory asset or regulatory liability or changes in the boundary of a regulatory agreement; and

(g) changes in regulatory assets and regulatory liabilities that did not give rise to regulatory income or regulatory expense—for example, regulatory assets acquired and regulatory liabilities assumed in a business combination.

74 An entity shall provide an explanation of the items described in paragraph 73(f)–(g).

75 For regulatory assets and regulatory liabilities measured in accordance with paragraph 34, an entity shall disclose quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities. The entity shall disclose the quantitative information disaggregated between:

(a) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate that is not nil; and

(b) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate of nil.

76 The entity shall determine the quantitative information required by paragraph 75 using:

(a) undiscounted cash flows, excluding regulatory interest cash flows; and

(b) reasonable and supportable assumptions about the timing of future cash flows that are consistent between periods.

77 The entity shall use its judgement to determine an appropriate number of time bands for the quantitative information required by paragraph 75. For example, an entity might determine appropriate time bands to be:

(a) not later than one year;

(b) later than one year and not later than three years;

(c) later than three years and not later than five years; and

(d) later than five years.

78 For regulatory assets and regulatory liabilities measured in accordance with paragraph 34, an entity shall also disclose:

(a) the discount rate, or ranges of discount rates, used in measuring regulatory assets and regulatory liabilities to which a regulatory agreement applies a regulatory interest rate;

(b) an explanation of how uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities; and

(c) the carrying amounts of regulatory assets and of regulatory liabilities at the end of the reporting period to which the entity has applied the exemption from discounting estimated future cash flows in paragraph 50.

79 For regulatory assets and regulatory liabilities measured by an entity applying paragraph 60, the entity shall provide information about the regulatory assets and regulatory liabilities and the related liabilities and related assets that explains:

(a) the relationship between the carrying amounts, and changes therein, of the regulatory assets or regulatory liabilities and the carrying amounts, and changes therein, of the related liabilities or related assets;

(b) the relationship between the risks associated with the regulatory assets or regulatory liabilities and the risks associated with the related liabilities or related assets; and

(c) how uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.

80 For example, if a regulatory asset arises from pension costs and is measured by an entity applying paragraph 60, the entity will need to consider how to disclose the information required by this standard and the information required by NZ IAS 19 *Employee Benefits* in a manner that shows the relationships described in paragraph 79.

Unrecognised regulatory assets and unrecognised regulatory liabilities

81 An entity shall disclose information about unrecognised regulatory assets and unrecognised regulatory liabilities that enables users of financial statements to understand:

(a) the type of compensation or deduction the unrecognised regulatory assets and unrecognised regulatory liabilities relate to; and

(b) the reason they have not been recognised—for example, an entity might not recognise a regulatory asset because the entity has determined that its regulatory capital base does not have a direct relationship with a related item or items (see paragraph 29).

Relationship between an entity's regulatory capital base and related items

82 An entity shall disclose information that enables users of financial statements to understand the relationship between the entity's regulatory capital base and a related item or items. That understanding will:

(a) provide insights into the nature of a regulatory agreement and the effect of a regulatory agreement on the entity's financial position and financial performance; and

(b) enable users to make comparisons between entities subject to different regulatory agreements.

83 To achieve the objective in paragraph 82, an entity shall disclose:

(a) the type of relationship (direct or not direct) between its regulatory capital base and a related item or items;

(b) the reasons why the entity determined that the relationship is of that type;

(c) any change to or from a direct relationship, and the reason for the change; and

(d) the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation on its regulatory capital base (see paragraphs B51(a) and B52).

Appendix A
Defined Terms

This appendix is an integral part of this standard and has the same authority as the other provisions of this standard.

Terms defined in this standard

allowable expense	An item of expense, as defined in IFRS Accounting Standards, for which a **regulatory agreement** provides compensation by adding an amount in determining a **regulated rate** to be charged by an entity.
allowed revenue	The total amount of compensation that a **regulatory agreement** entitles an entity to charge customers through **regulated rates** in a period.
chargeable income	An item of income, as defined in IFRS Accounting Standards, for which a **regulatory agreement** makes a deduction of an amount in determining a **regulated rate** to be charged by an entity.
regulated rate	A price determined by a **regulator** that an entity charges for goods or services supplied to customers in a period.
regulator	A body that is required by law or regulation to apply a **regulatory agreement** to determine a **regulated rate** (or a range for the **regulated rate**).
regulatory agreement	An agreement that creates a set of enforceable rights and enforceable obligations that prescribes how a **regulator** determines a **regulated rate** (or a range for the **regulated rate**).
regulatory asset	An enforceable present right, created by a **regulatory agreement**, to add an amount in determining a **regulated rate** to be charged to customers in future periods because part or all of the **total allowed compensation** for **regulatory goods or services** already supplied has not yet been included in revenue recognised from contracts with customers applying IFRS 15.
regulatory capital base	Assets and other items that a **regulatory agreement** entitles an entity to recover by adding an amount for **regulatory depreciation** in determining a **regulated rate** to be charged to customers.
regulatory depreciation	The systematic allocation by a **regulator** of an amount of a **regulatory capital base** to be added in determining a **regulated rate**.
regulatory expense	Expense arising from changes in a **regulatory asset** or a **regulatory liability**.
regulatory goods or services	Goods or services supplied by an entity to comply with a **regulatory agreement**.
regulatory income	Income arising from changes in a **regulatory asset** or a **regulatory liability**.

regulatory interest rate	The interest rate specified or implied by a **regulatory agreement** to provide compensation for the time period until recovery of a **regulatory asset** or to make a deduction for the time period until fulfilment of a **regulatory liability**.
regulatory liability	An enforceable present obligation, created by a **regulatory agreement**, to deduct an amount in determining a **regulated rate** to be charged to customers in future periods because part or all of the **total allowed compensation** for **regulatory goods or services** to be supplied in the future has already been included in revenue recognised from contracts with customers applying IFRS 15.
regulatory return	The return on the **regulatory capital base** resulting from the rate of return a **regulatory agreement** applies to a **regulatory capital base**.
total allowed compensation (for regulatory goods or services)	The amount of compensation to which a **regulatory agreement** entitles an entity for **regulatory goods or services** supplied in a reporting period. The amount might be charged through **regulated rates** in either the same period as the entity supplies the **regulatory goods or services**, or a different period.

Term defined in another NZ IFRS Accounting Standard and used in this standard with the same meaning

customer (defined in NZ IFRS 15)	A party that has contracted with an entity to obtain goods or services that are an output of an entity's ordinary activities in exchange for consideration.

Appendix B
Application guidance

This appendix is an integral part of this standard. It describes the application of paragraphs 1–83 and has the same authority as the other provisions of this standard.

B1 This appendix provides application guidance on:

(a) enforceable present rights and enforceable present obligations (see paragraphs B2–B10);

(b) differences in timing (see paragraphs B11–B58);

(c) recognition of regulatory assets and regulatory liabilities arising from regulatory depreciation of a regulatory capital base (see paragraphs B59–B72);

(d) the boundary of a regulatory agreement (see paragraphs B73–B87);

(e) uncertain future cash flows (see paragraphs B88–B91);

(f) application of this standard with NZ IFRIC 12 *Service Concession Arrangements* (see paragraphs B92–B94); and

(g) disclosure—aggregation and disaggregation (see paragraphs B95–B97).

Enforceable present rights and enforceable present obligations

B2 This section covers:

(a) assessing enforceability (see paragraphs B3–B7); and

(b) identifying the regulator (see paragraphs B8–B10).

Assessing enforceability

B3 Paragraph 8 requires an entity to assess whether it has an enforceable present right or enforceable present obligation to add or deduct an amount in determining a regulated rate to be charged to customers in future periods.

B4 An entity assesses whether an enforceable present right or enforceable present obligation exists by using judgement and considering all reasonable and supportable information that is available without undue cost or effort. Such information might relate to:

(a) the legal and regulatory framework (see paragraph B5); or

(b) a specific difference in timing (see paragraph B6).

B5 Whether rights and obligations created by a regulatory agreement are enforceable is a matter of law. An enforceable present right or enforceable present obligation need not be explicitly specified in a regulatory agreement. An entity shall consider whether enforceable present rights or enforceable present obligations exist in the context of the applicable legal and regulatory framework that ensures a party's rights and obligations are upheld. Applicable regulatory decisions or court rulings might provide evidence about the existence of enforceable present rights or enforceable present obligations. The entity shall consider any applicable laws or legal precedents that could supplement

or override the terms of the regulatory agreement. Other factors might provide evidence in specific jurisdictions.

B6 Facts or circumstances that might provide evidence of the existence of an enforceable present right or enforceable present obligation in relation to a specific difference in timing include:

(a) confirmation from a regulator of amounts to be added to or deducted from future regulated rates;

(b) explicit requirements or guidelines in a regulatory agreement;

(c) evidence that allowable expenses have been incurred;

(d) direct precedents—an entity's experience with its regulator's interpretation of the regulatory agreement in similar circumstances;

(e) indirect precedents—such as (i) the experience of other entities regulated by the same regulator, (ii) the decisions of other regulators in the same jurisdiction or (iii) court rulings in similar circumstances in the same jurisdiction;

(f) preliminary views expressed by a regulator; and

(g) advice from qualified and experienced legal or other advisers.

B7 In assessing whether an enforceable present right or enforceable present obligation exists, an entity shall consider the overall balance of the evidence. The presence of an individual fact or circumstance described in paragraph B6 might not be sufficient to enable an entity to determine whether a regulatory asset or regulatory liability exists. The weight given to each fact or circumstance in the assessment might depend on the legal and regulatory framework within which the entity operates and the effectiveness of the enforcement processes (see paragraph B5).

Identifying the regulator

B8 A regulator is a body that is required by law or regulation to apply a regulatory agreement to determine a regulated rate (or a range for the regulated rate). For a regulatory asset or a regulatory liability to exist, a regulator needs to be a party to the regulatory agreement (see paragraph 9(a)).

B9 Only situations in which a rate is determined by a regulator give rise to regulatory assets or regulatory liabilities. For example, a parent entity might determine the rate that a subsidiary charges its customers for goods or services supplied to them. However, the parent entity is not a body that is required by law or regulation to determine the rate the subsidiary is required to apply in its contracts with customers. Accordingly, the parent entity is not a regulator for the purposes of this standard and, as a consequence, the agreement between the parent entity and its subsidiary is not a regulatory agreement that can create regulatory assets or regulatory liabilities.

B10 Examples of when regulatory assets or regulatory liabilities might arise include when:

(a) an entity or a related party of the entity sets rates in accordance with a specified legal and regulatory framework and the application of that framework is subject to oversight or approval by a body that is required to do so by law or regulation.

Example
Law or regulation gives an entity the ability to set the rates it charges customers for goods or services supplied to them. In setting the rates, the entity must follow the pricing principles set out in law or regulation. Assume a government agency is required by law or regulation to ensure the entity sets the rates in accordance with applicable law or regulation. As a result, customers are able to appeal against the rates to the government agency if they have grounds to suspect that the entity breached the pricing principles set out in law or regulation. In this situation, although the entity sets the rates, it does so in accordance with law or regulation. A regulator—that is, the government agency—oversees whether the entity applies law or regulation appropriately. Consequently, regulatory assets or regulatory liabilities might arise in this situation.

(b) a regulatory agreement permits some flexibility in the rates charged to customers, with an entity being allowed some discretion to set the rate within a range of rates determined by the regulator.

Example
A regulatory agreement provides an entity with some discretion to set the rate to be charged to customers provided the rate is set within a specified range determined by the regulator. The regulatory agreement further specifies that, if the total amount charged to customers is below or above a specified threshold determined by the regulator, the entity has a right to add, or an obligation to deduct, the shortfall or excess in determining the regulated rates to be charged to customers in future periods. Consequently, a regulatory asset or regulatory liability might arise in this situation.

Differences in timing

B11 Paragraph 19 sets out the most common types of compensation provided or deductions made by regulatory agreements. This section describes differences in timing that might arise from such compensation or deductions:

(a) differences in timing arising from compensation for allowable expenses and deductions for chargeable income (see paragraphs B13–B29);

(b) differences in timing arising from a regulatory return on an entity's regulatory capital base (see paragraphs B30–B40);

(c) differences in timing arising from performance incentives (see paragraphs B41–B50); and

(d) differences in timing arising from compensation relating to inflation (see paragraphs B51–B54).

B12 This section also describes differences in timing that arise from the under-recovery or over-recovery of allowed revenue (see paragraphs B55–B58).

Differences in timing arising from compensation for allowable expenses and deductions for chargeable income

B13 This section describes:

(a) differences in timing arising from compensation for allowable expenses (see paragraphs B14–B19);

(b) differences in timing arising from deductions for chargeable income (see paragraphs B20–B22);

(c) differences in timing arising from compensation or deductions for income taxes (see paragraphs B23–B25); and

(d) the distinction between differences in timing and measurement differences (see paragraphs B26–B29).

Differences in timing arising from compensation for allowable expenses

B14 An allowable expense is an item of expense, as defined in NZ IFRS Accounting Standards, for which a regulatory agreement provides compensation by adding an amount in determining a regulated rate to be charged by an entity. The regulatory agreement might determine the compensation for an allowable expense at an amount that differs from the expense recognised by applying NZ IFRS Accounting Standards (see paragraphs B26–B29).

B15 As stated in paragraph 19, compensation for an allowable expense forms part of the total allowed compensation for the reporting period in which an entity recognises the allowable expense by applying IFRS Accounting Standards. Therefore, a difference in timing arises if the regulator includes compensation for an allowable expense in determining the regulated rates charged in a period that differs from the reporting period in which the entity recognises the allowable expense by applying IFRS Accounting Standards.

B16 Compensation for an allowable expense is provided through either regulatory depreciation of an entity's regulatory capital base or a component of compensation separate from regulatory depreciation.

Compensation for allowable expenses provided through regulatory depreciation

B17 Differences in timing might arise from compensation for allowable expenses provided through regulatory depreciation (see paragraphs B59–B72). For example:

(a) for depreciation or amortisation expense—a difference in timing arises if there is a difference between:

(i) the recovery period or recovery pattern of the items included in the regulatory capital base related to depreciable or amortisable assets; and

(ii) the useful lives or depreciation or amortisation method for those assets determined by applying IFRS Accounting Standards; or

(b) for an allowable expense other than depreciation or amortisation expense—a difference in timing arises if an entity recognises an allowable expense in a reporting period by applying NZ IFRS Accounting Standards and the

compensation for that allowable expense is included in the regulatory capital base, and hence is recovered through regulatory depreciation in future periods.

Compensation for allowable expenses provided separately from regulatory depreciation

B18 Compensation for allowable expenses might be provided through a component of compensation separate from regulatory depreciation. For example, compensation for pension costs, income taxes or provisions is often provided through a separate component of compensation included in the regulated rates.

B19 Examples of differences in timing that arise from compensation provided through a component of compensation separate from regulatory depreciation include:

(a) differences in timing that arise if compensation for an allowable expense is included in determining the regulated rates charged to customers either earlier or later than an entity recognises the allowable expense by applying IFRS Accounting Standards. For example:

(i) an entity recognises depreciation expense or amortisation expense as an asset is used to supply regulatory goods or services. However, the regulatory agreement provided compensation for the depreciation expense or amortisation expense in advance, separately from regulatory depreciation (see paragraph B59).

(ii) an entity recognises an allowable expense in a period by applying NZ IFRS Accounting Standards. However, the regulatory agreement provides compensation for the allowable expense in determining the regulated rates charged to customers only when an entity settles the related liability in cash, or soon after that (see paragraphs 58 and 60–61).

(iii) an entity recognises expected credit losses in a period by applying NZ IFRS 9 *Financial Instruments*. However, the regulatory agreement provides compensation for such losses in determining the regulated rates charged to customers only when the regulator determines that there is no reasonable expectation of the entity receiving the related cash (see paragraphs 59–61).

(iv) an entity recognises an allowable expense in a period. However, the regulatory agreement provides compensation for that allowable expense by applying another accounting framework used to prepare financial statements. The timing of the compensation determined by applying that accounting framework differs from the timing of the recognition of the allowable expense determined by applying NZ IFRS Accounting Standards (see paragraph B29).

(b) differences in timing that arise from differences between the estimated and actual compensation. For example, the regulatory agreement determines compensation for an allowable expense to be added in determining the regulated rates charged to customers based on estimated amounts. However, the regulatory agreement specifies that any difference between the estimated and actual amounts is added or deducted in determining the regulated rates to be charged to customers in future periods.

Differences in timing arising from deductions for chargeable income

B20 Chargeable income is an item of income, as defined in NZ IFRS Accounting Standards, for which a regulatory agreement makes a deduction of an amount in determining a regulated rate to be charged by an entity. The regulatory agreement might determine the deduction for chargeable income at an amount that differs from the income recognised by applying NZ IFRS Accounting Standards (see paragraphs B26–B29).

B21 As stated in paragraph 19, a deduction for chargeable income reduces the total allowed compensation for the reporting period in which the entity recognises the chargeable income by applying NZ IFRS Accounting Standards. Therefore, a difference in timing arises if the entity recognises chargeable income by applying NZ IFRS Accounting Standards in a reporting period that differs from the period in which the regulatory agreement makes the deduction for that chargeable income in determining the regulated rates charged to customers.

B22 As with compensation for allowable expenses, deductions for chargeable income are either:

(a) deductions for chargeable income made by reducing regulatory depreciation (see paragraphs B59–B72). For example, an entity's regulatory capital base might be reduced by a deduction for a gain on disposal of a depreciable asset recognised by applying NZ IFRS Accounting Standards. A difference in timing will arise because the deduction will be made in determining the regulated rates charged to customers in future periods.

(b) deductions for chargeable income made separately from regulatory depreciation in determining the regulated rates to be charged to customers. For example, a regulatory agreement might make a deduction in determining the regulated rates for a gain arising from a commodity futures contract. A difference in timing arises if the entity recognises the gain by applying NZ IFRS Accounting Standards in a reporting period that differs from the period in which the deduction is made in determining the regulated rates charged to customers.

Differences in timing arising from compensation or deductions for income taxes

B23 An entity recognises tax expense or tax income by applying NZ IAS 12 *Income Taxes*. Such tax expense or tax income might be an allowable expense or chargeable income. A difference in timing arises if part or all of the compensation or deduction for such tax expense or tax income is included in determining the regulated rates charged to customers in a different period from when the tax expense or income is recognised.

B24 For example, a difference in timing arises if a regulatory agreement provides compensation or makes a deduction in determining the regulated rates charged in a reporting period for current tax expense or income but not for deferred tax expense or income for that period.

B25 An entity shall also apply NZ IAS 12 to account for differences between the carrying amount of a regulatory asset or regulatory liability and its tax base. Applying NZ IAS 12, the entity might recognise a deferred tax liability or deferred tax asset related to a regulatory asset or regulatory liability. Further, the recognition of a deferred tax liability or deferred tax asset—and its related deferred tax expense or deferred tax income—in a reporting period might give rise to another regulatory asset or regulatory

liability, which in turn results in the recognition of further deferred tax. In such cases, the measurement of the regulatory asset or regulatory liability related to the deferred tax reflects that iterative process, resulting in an amount for the regulatory asset or regulatory liability that includes the compensation or deduction for its own tax effect.

Measurement differences

B26 In some cases, the total amount of compensation for an allowable expense or a deduction for chargeable income determined by a regulatory agreement over all periods differs from the total amount of the expense or income an entity will recognise over all periods by applying NZ IFRS Accounting Standards. Such differences are measurement differences that do not reverse over time.

B27 A measurement difference might arise from compensation for an allowable expense or a deduction for chargeable income without that compensation or deduction giving rise to a difference in timing. For example, a regulatory agreement might determine the compensation for an allowable expense recognised in a reporting period based on an estimate, and not adjust future regulated rates to be charged to customers to reflect any difference between the estimate and the actual expense recognised. Such a difference is a measurement difference, not a difference in timing. The measurement difference is reflected in the statement(s) of financial performance in the reporting period through the recognition of NZ IFRS 15 revenue, which includes compensation based on the estimate, and the recognition of the expense for the actual amount.

B28 In other cases, a difference in timing and a measurement difference might occur concurrently. In the example described in paragraph B27, assume that the regulatory agreement specifies that compensation based on an estimate for the allowable expense recognised in a reporting period is added in determining the regulated rates to be charged to customers in the future. A difference in timing—a regulatory asset—arises from the delayed compensation. There is also a measurement difference arising from any difference between the compensation based on the estimate and the actual expense recognised. The future cash flows arising from the regulatory asset—and hence its measurement—are determined by the amount of the compensation, not by the amount of allowable expense recognised by applying NZ IFRS Accounting Standards. The measurement difference is reflected in the statement(s) of financial performance in the reporting period through the recognition of regulatory income for the compensation based on the estimate, and the recognition of the expense for the actual amount.

B29 A regulatory agreement might determine compensation for an allowable expense or a deduction for chargeable income for a reporting period by using the related expense or related income that would be recognised in the period by applying an accounting framework other than NZ IFRS Accounting Standards. As a result, the amount of compensation or deduction that is included in determining the regulated rates charged in the period might differ from the related expense or related income recognised in that period by applying NZ IFRS Accounting Standards. However, such differences are not measurement differences if the total amount of the compensation or deduction over all periods equals the total amount of the expense or income an entity recognises over all periods by applying NZ IFRS Accounting Standards. Instead, these differences are differences in timing because part or all of the compensation or deduction for the expense or income the entity recognises in a reporting period is included in determining the regulated rates charged in a different period.

Differences in timing arising from a regulatory return on an entity's regulatory capital base

B30 Regulatory agreements generally apply a rate of return to an entity's regulatory capital base for a period, resulting in a regulatory return to which the entity is entitled for the period.

B31 Regulatory agreements might provide regulatory returns on a nominal or a real basis. A nominal regulatory return includes compensation for inflation (see paragraph B51(a)). Regulatory returns might include only a debt return, only an equity return or both a debt and equity return.

B32 A regulatory capital base might include both assets available for use and assets not yet available for use. In some cases:

(a) an entity has separate regulatory capital bases for assets available for use and for assets not yet available for use; and

(b) the rate of return applied to assets available for use differs from the rate of return applied to assets not yet available for use.

B33 Except in the circumstances specified in paragraph B35, a regulatory return forms part of the total allowed compensation for the reporting period in which the regulatory agreement applies the rate of return to a regulatory capital base.

B34 Differences in timing arise if a regulatory agreement includes part or all of a regulatory return in determining the regulated rates charged to customers in a different reporting period from the period in which the agreement applies the rate of return to the regulatory capital base. For example, a regulatory agreement might determine a regulatory return for a period based on an estimate of an entity's regulatory capital base. A difference in timing arises if the regulatory agreement provides compensation or makes a deduction for differences between the estimated and actual amounts of the regulatory return for the reporting period in determining the regulated rates to be charged to customers in a future period.

A regulatory return on assets not yet available for use in specific circumstances

B35 This section specifies requirements for differences in timing arising from a regulatory return on assets not yet available for use if:

(a) the entity capitalises borrowing costs related to those assets by applying NZ IAS 23 *Borrowing Costs*;

(b) the regulatory return is only a debt return or both a debt and equity return; and

(c) the entity's regulatory capital base has a direct relationship with those assets (see paragraphs B59–B72).

B36 In the circumstances described in paragraph B35, the entity shall treat part or all of the regulatory return as compensation for an allowable expense—that is, the capitalised borrowing costs:

(a) if the regulatory return comprises only a debt return, the regulatory return forms part of the total allowed compensation for the reporting periods in which the entity recognises the borrowing costs as an expense, in accordance with

paragraph 19—that is, for the periods in which the assets are available for use; and

(b) if the regulatory return comprises both a debt and equity return, the regulatory return is treated as two parts:

(i) the regulatory return amounting to the entity's capitalised borrowing costs forms part of the total allowed compensation for the reporting periods in which the entity recognises the borrowing costs as an expense, in accordance with paragraph 19—that is, for the periods in which the assets are available for use; and

(ii) the regulatory return in excess of the entity's capitalised borrowing costs forms part of the total allowed compensation for the reporting period in which the regulatory agreement applies the rate of return to the regulatory capital base, in accordance with paragraph B33—that is, for the periods in which the assets are not yet available for use.

B37 Table B1 provides an overview of the regulatory assets and regulatory liabilities that might arise from differences in timing relating to the regulatory returns described in paragraph B36. The requirements set out in paragraph B66 for the determination of individual differences in timing apply to the differences in timing described in paragraph B36. However, an entity is permitted to determine individual differences in timing described in paragraph B36 using the disaggregation of the capitalised borrowing costs the entity uses to calculate depreciation or amortisation expense related to those costs.

Table B1—Overview of differences in timing

When the regulatory return is included in determining the regulated rates charged to customers	**Components of the regulatory return**	
	Only a debt return	**Both a debt and equity return**
While an asset is not yet available for use	B36(a): a difference in timing, resulting in a regulatory liability amounting to the regulatory return.	B36(b)(i): a difference in timing, resulting in a regulatory liability amounting to the capitalised borrowing costs (see also paragraph B39).
While an asset is available for use	No difference in timing.	B36(b)(ii): a difference in timing, resulting in a regulatory asset amounting to the regulatory return in excess of the capitalised borrowing costs (see also paragraphs B39–B40).

B38 The effect of the differences in timing described in Table B1 in the statement of profit or loss differs because of the different reporting periods in which the regulatory return forms part of total allowed compensation as set out in paragraph B36:

(a) if the regulatory return comprises only a debt return—any difference between the regulatory return and the capitalised borrowing costs is a measurement difference that is recognised in profit or loss in the periods in which the assets are available for use (see paragraphs B26–B29); and

(b) if the regulatory return comprises both a debt and equity return—the regulatory return in excess of the capitalised borrowing costs is recognised in profit or loss in the periods in which the rate of return is applied to the regulatory capital base (that is, the periods in which the assets are not yet available for use).

B39 In some cases, a regulatory return that comprises both a debt and equity return on an asset not yet available for use is determined on a real basis (see paragraph B52). In such cases, an entity shall determine any regulatory asset or regulatory liability that might arise from the regulatory return described in paragraph B36(b) by applying a real interest rate to the inflation-adjusted borrowings related to the assets not yet available for use.

B40 Applying paragraph 8, an entity is required, during the period in which the asset is not yet available for use, to assess whether it has an enforceable present right for the regulatory return accrued to date to be added in determining the regulated rates to be charged in future periods. To make this assessment for the regulatory assets that arise from the regulatory returns described in paragraph B36(b)(ii), an entity shall consider what rights it would have if the regulator or another party were to terminate the regulatory agreement at the end of the reporting period for a reason other than the entity's failure to perform as specified in the agreement. The entity shall apply paragraphs B4–B7 to assess whether, in those circumstances, it would have an enforceable present right to receive an amount that reflects the regulatory return accrued to date.

Differences in timing arising from performance incentives

B41 A regulatory agreement might reward or penalise an entity with performance incentives for meeting or failing to meet performance criteria. These criteria could include, for example, targeted levels of service quality, reliability or customer satisfaction. Alternatively, these criteria might relate to an entity's efficiency in incurring capital and operating expenditure or performance in constructing an item of property, plant or equipment.

B42 Performance incentives form part of the total allowed compensation for the reporting period in which an entity's performance occurs. To determine that period, the entity shall consider the regulatory agreement's terms relating to the performance incentives, together with other facts and circumstances.

B43 A difference in timing arises if the period in which a performance incentive is included in determining the regulated rates charged to customers differs from the reporting period in which an entity's performance occurs.

B44 A regulatory agreement might determine a performance incentive in several ways. For example, a performance incentive might be determined using a fixed monetary amount

(such as CU100) or a formula (such as 1% of the amounts charged to customers during a specified period), or by using a rate of return (such as an additional 1%) applied to the regulatory capital base for a specified period. When a performance incentive is determined by using a rate of return, an entity shall account for the performance incentive by applying paragraphs B41–B50, not by applying paragraphs B30–B40 as if it were part of the regulatory return.

Performance incentives relating to an entity's performance beyond the reporting period

B45 A performance incentive might relate to an entity's performance over a period that extends beyond the reporting period. In such cases, at the end of the reporting period, applying paragraph 8 an entity shall assess whether it has an enforceable present right to add, or an enforceable present obligation to deduct, an amount that reflects its performance to date in determining the regulated rates to be charged in future periods. The amount that reflects performance to date shall be determined as described in paragraph B47.

B46 To make the assessment required by paragraph 8, an entity shall consider what rights and obligations it would have if the regulator or another party were to terminate the regulatory agreement at the end of the reporting period for reasons other than the entity's failure to perform as specified in the agreement. The entity shall apply paragraphs B4–B7 to assess whether, in those circumstances, it would have an enforceable present right to receive or an enforceable present obligation to pay an amount that reflects its performance to date.

B47 The entity shall estimate the total amount of the performance incentive using either the most likely amount method or the expected value method in accordance with paragraph 42, and determine the portion of that estimated amount that reflects performance to date using a reasonable and supportable basis.

Performance incentives depending on more than one performance criterion

B48 In some cases, a performance incentive depends on more than one performance criterion and the criteria apply over periods with different end dates. Some amounts of the performance incentive will remain conditional on future performance criteria after other amounts have become unconditional. In such cases, an entity shall assess whether the amounts that remain conditional relate only to an entity's performance in future periods. For example, assume that a regulatory agreement provides an entity with a bonus of CU1,000 for reaching specified construction milestones but specifies that CU400 of that bonus is conditional on the asset continuing to operate at a specified level of capacity over a specified future period. The entity might assess that the bonus of CU1,000 comprises:

(a) an amount of CU600 that is related to the construction milestones—in which case this amount forms part of the total allowed compensation for the reporting period(s) in which the entity constructs the asset; and

(b) an amount of CU400 that is related to the entity maintaining a specified level of capacity over a specified future period—in which case this amount forms part of the total allowed compensation for the specified future reporting period(s) in which the asset operates at the specified level.

B49 The performance criteria might relate to an entity's performance beyond the reporting period. For each such performance criterion, an entity shall apply paragraphs B45–B47.

Compensation or deduction for performance incentives through regulatory depreciation

B50 A regulatory agreement might specify that compensation or a deduction for a performance incentive related to an entity's performance for a period is added to or deducted from the entity's regulatory capital base. In such cases, differences in timing arise because the compensation or deduction for an entity's performance for a period is provided or made through regulatory depreciation in future periods (see paragraphs B59–B72).

Differences in timing arising from compensation relating to inflation

B51 Compensation for inflation arising in a reporting period might be provided:

(a) through a nominal regulatory return on a regulatory capital base, to which an entity shall apply paragraphs B30–B40;

(b) by inflation adjustments to a regulatory capital base recovered through regulatory depreciation (see paragraph B52); or

(c) through a component of compensation that is separate from regulatory depreciation (see paragraphs B53–B54).

B52 In some cases, a regulatory agreement applies a real rate of return to a regulatory capital base that is adjusted by inflation. Applying paragraph 20, an entity shall treat compensation provided by these inflation adjustments as forming part of the total allowed compensation for the reporting period in which the inflation is recovered through regulatory depreciation included in determining the regulated rates charged to customers. Accordingly, an entity shall not recognise any amounts for regulatory assets or regulatory liabilities for such compensation.

B53 A regulatory agreement might provide compensation for inflation arising in a reporting period separately from regulatory depreciation. Such compensation forms part of the total allowed compensation in that reporting period.

B54 Differences in timing could arise from such compensation for inflation. For example, a regulatory agreement might provide an entity with compensation for inflation for the current reporting period. That compensation might be based on the expected inflation rate for that period being applied to determine estimated costs or the entity's allowed revenue for the period. The regulatory agreement might also require the entity to add or deduct differences between the estimated and actual inflation rates for the current reporting period in determining the regulated rates to be charged to customers in future periods. Differences between the estimated and actual inflation rates give rise to a difference in timing in the current reporting period (see paragraph B19(b)).

Differences in timing arising from allowed revenue

B55 Allowed revenue is the total amount of compensation that a regulatory agreement entitles an entity to charge customers through regulated rates in a period. A regulatory agreement typically:

(a) determines an entity's allowed revenue for a period by considering different types of compensation or deductions, primarily those described in paragraph 19; and

(b) determines the regulated rates for a period by dividing the allowed revenue for the period by the estimated quantity of goods or services to be supplied to customers in that period.

B56 Differences in timing arise from paragraph B55(a) if allowed revenue for a reporting period includes amounts that form part of total allowed compensation in a different period, as discussed in paragraphs B13–B54.

B57 Differences in timing can also arise from paragraph B55(b), if:

(a) the entity charges customers less or more than the allowed revenue for a reporting period because, for example, it supplies less or more goods or services than were estimated when the regulated rate was determined (volume variances); and

(b) the regulator adds the under-recovered allowed revenue or deducts the over-recovered allowed revenue for a reporting period in determining the regulated rates to be charged in a future period.

Compensation or deduction for under-recovery or over-recovery of allowed revenue through regulatory depreciation

B58 A regulatory agreement might specify that compensation or a deduction for an under-recovered or over-recovered amount of allowed revenue for a period is added to or deducted from the entity's regulatory capital base. In such cases, differences in timing arise because the compensation or deduction for an entity's under-recovered or over-recovered amount of allowed revenue for a reporting period is provided or made through regulatory depreciation in future periods (see paragraphs B59–B72).

Recognition of regulatory assets and regulatory liabilities arising from regulatory depreciation of a regulatory capital base

Scope of requirements in paragraph 29

B59 Paragraph 29 sets a criterion for the recognition of regulatory assets and regulatory liabilities arising from regulatory depreciation of an entity's regulatory capital base. In some cases, a regulatory agreement provides compensation for amounts that will arise from depreciable or amortisable assets separately from regulatory depreciation. Such compensation reduces the regulatory depreciation that would otherwise be provided. If such separate compensation does not relate specifically to capitalised borrowing costs and is provided while the assets are not yet available for use, an entity shall treat any regulatory liabilities arising from the compensation as arising from regulatory depreciation of an entity's regulatory capital base for the purposes of paragraph 29.

Relationship between a regulatory capital base and a related item or items

B60 The regulatory capital base comprises assets and other items that a regulatory agreement entitles an entity to recover by adding an amount for regulatory depreciation in determining a regulated rate to be charged to customers. That regulatory

depreciation provides compensation or makes a deduction for amounts arising from related items. Examples of related items are:

(a) items recognised by an entity as depreciable or amortisable assets by applying NZ IFRS Accounting Standards;

(b) an allowable expense added to, or chargeable income deducted from, the regulatory capital base other than expenses or income arising from the assets described in (a); and

(c) other amounts added to, or deducted from, the regulatory capital base—for example, performance incentives (see paragraph B50) and the under-recovery or over-recovery of allowed revenue (see paragraph B58).

B61 The regulatory capital base could comprise parts that have a direct relationship with a related item or items and a part that does not have such a relationship. An entity shall apply paragraphs 30 and B62–B70 to identify whether any part of its regulatory capital base has a direct relationship with a related item or items. To apply these paragraphs and the disclosure requirements in paragraphs 82–83, an entity shall read the references in those paragraphs to the 'regulatory capital base' as being to 'a part of the regulatory capital base'.

B62 When applying paragraph 30, an entity determines whether its regulatory capital base has a direct relationship with a related item or items. In making that determination, the entity shall use its judgement and consider all reasonable and supportable information that is available without undue cost or effort. Such information includes the regulatory methodology underlying the determination of its regulatory capital base, the determination of the regulatory depreciation, and how the regulator monitors whether regulatory depreciation provides compensation or makes a deduction for amounts arising from a related item or items.

B63 Paragraphs B67–B70 set out indicators of whether a regulatory capital base has a direct relationship with a related item or items. These indicators are not exhaustive. An entity might give more weight to some indicators than others in determining whether its regulatory capital base has a direct relationship with a related item or items. Nonetheless, an entity is permitted to presume its regulatory capital base does not have a direct relationship with depreciable or amortisable assets if neither of the indicators described in paragraph B67 are present.

Direct relationship with depreciable or amortisable assets

B64 A depreciable or amortisable asset is an asset that is depreciable or amortisable in accordance with NZ IFRS Accounting Standards—for example, NZ IAS 16 *Property, Plant and Equipment*, NZ IAS 38 *Intangible Assets* or NZ IFRS 16 *Leases*. An asset class is a group of assets as described in paragraph 37 of NZ IAS 16, paragraph 119 of NZ IAS 38 or paragraph 8 of NZ IFRS 16.

B65 Paragraph 30 states that an entity's regulatory capital base has a direct relationship with a related item or items if the entity is able to track, by amount and reporting period, how regulatory depreciation provides compensation or makes a deduction for the amounts arising from the related item or items. An entity shall determine whether its regulatory capital base has a direct relationship with its depreciable or amortisable assets by considering the smallest aggregation of assets for which the entity is able to

do the tracking specified in paragraph 30. The aggregation shall be no larger than an asset class. For example:

(a) if an entity is able to track such compensation or deductions for individual assets—the regulatory capital base has a direct relationship with the individual assets;

(b) if an entity is not able to track such compensation or deductions for individual assets, but can track such compensation or deductions by disaggregating an asset class—the regulatory capital base has a direct relationship with the assets in the disaggregated part of the asset class for which the entity is able to track the compensation or deductions;

(c) if an entity is not able to track such compensation or deductions for any disaggregation of an asset class, but can track such compensation or deductions for the asset class—the regulatory capital base has a direct relationship with the assets in the asset class; and

(d) if an entity is not able to track such compensation or deductions for any asset class—the regulatory capital base does not have a direct relationship with its depreciable or amortisable assets.

B66 An entity shall determine an individual difference in timing as required by paragraph 25 for each aggregation of assets with which the regulatory capital base has a direct relationship.

B67 Indicators that an entity's regulatory capital base has a direct relationship with its depreciable or amortisable assets include:

(a) the assets or classes in the regulatory capital base are sufficiently similar to the depreciable or amortisable assets or asset classes for the entity to be able to track any differences between assets or classes in the regulatory capital base and the related assets or asset classes; or

(b) the regulator determines an amount of regulatory depreciation to provide compensation for the depreciation or amortisation expense determined by applying NZ IFRS Accounting Standards.

B68 Indicators that an entity's regulatory capital base does not have a direct relationship with its depreciable or amortisable assets include:

(a) the regulator determines the regulatory capital base by using information that differs significantly from information about the entity's depreciable or amortisable assets accounted for by applying NZ IFRS Accounting Standards; or

(b) the regulator determines regulatory depreciation by considering factors unrelated to the depreciation or amortisation of depreciable or amortisable assets.

Direct relationship with related items other than depreciable or amortisable assets

B69 Indicators that an entity's regulatory capital base has a direct relationship with related items other than depreciable or amortisable assets (see paragraph B60(b)–(c)) include:

(a) the regulatory capital base has a direct relationship with the entity's depreciable or amortisable assets; or

(b) the regulator monitors how regulatory depreciation provides compensation or makes a deduction for the amounts arising from the related items separately from the rest of the regulatory capital base. For example, the regulatory monitoring might provide the entity with the information necessary to track, by amount and reporting period, how items in the regulatory capital base that relate to allowable expenses arising in a reporting period are recovered through regulatory depreciation.

B70 An indicator that an entity's regulatory capital base does not have a direct relationship with related items other than depreciable or amortisable assets is that the entity is unable—using a reasonable and supportable basis—to allocate to related items adjustments to the regulatory capital base or regulatory depreciation. This situation might arise if the regulator determines regulatory depreciation by considering the regulatory capital base as a whole.

Reassessment

B71 An entity shall reassess whether its regulatory capital base has a direct relationship with a related item or items:

(a) if facts or circumstances change or new information becomes available—for example, a change in the regulatory agreement; and

(b) if that change or new information could alter that relationship.

B72 If an entity determines that the relationship between its regulatory capital base and a related item or items has:

(a) ceased to be a direct relationship—the entity shall derecognise any affected regulatory assets and regulatory liabilities and recognise any related regulatory expense or regulatory income in accordance with paragraph 33; and

(b) started to be a direct relationship—the entity shall start to recognise any affected regulatory assets and regulatory liabilities in accordance with paragraph 29, and any resulting regulatory income or regulatory expense.

Boundary of a regulatory agreement

B73 Paragraph 35 states that cash flows within the boundary of a regulatory agreement comprise:

(a) cash flows from amounts added or deducted in determining the regulated rates to be charged to customers in future periods (see paragraphs B74–B80); and

(b) cash flows from compensation on termination of the regulatory agreement (see paragraphs B81–B85).

Regulated rates charged to customers in future periods

B74 Cash flows from amounts added or deducted in determining the regulated rates to be charged to customers in the future are within the boundary of a regulatory agreement if an entity has:

(a) an enforceable present right or enforceable present obligation to supply regulatory goods or services at the future date (see paragraphs B75–B78); and

(b) an enforceable present right to recover a regulatory asset, or an enforceable present obligation to fulfil a regulatory liability, through regulated rates to be charged to customers in the future (see paragraphs B79–B80).

Enforceable present right or enforceable present obligation to supply regulatory goods or services

B75 An entity's enforceable present right or enforceable present obligation to supply regulatory goods or services at a future date might be affected by a right, held by any party, to renew the regulatory agreement or to terminate it. For example, an entity might have an enforceable present right to renew a regulatory agreement. Such a right would give the entity an enforceable present right to supply regulatory goods or services at a future date covered by that renewal if no other party has an enforceable present right to prevent the renewal.

B76 Rights to renew or terminate a regulatory agreement might be explicit or implicit. In assessing whether such a right affects an entity's enforceable present right or enforceable present obligation to supply regulatory goods or services at a future date, the entity shall disregard a right held by any party if the party has no practical ability to exercise that right in any circumstances.

B77 The holder of a right might have no practical ability to exercise the right if, for example:

(a) the economic consequences of exercising the right are significantly more adverse for the holder than the consequences of not exercising it;

(b) exercising a right held by an entity would lead to that entity being liquidated or ceasing to trade; or

(c) exercising a right held by a regulator would lead to major disruption in the provision of an essential public service.

B78 In some cases, an entity might conclude that it has an enforceable present right or enforceable present obligation to supply regulatory goods or services for an indefinite period. An entity might reach this conclusion if:

(a) the entity operates through a legal and regulatory framework that entitles the entity to supply regulatory goods or services for an indefinite period; or

(b) the entity operates through renewable agreements for which the renewal is viewed as an administrative procedure—for example, renewal occurs unless the agreement is significantly breached and the direct costs of renewal are insignificant.

Enforceable present right to recover a regulatory asset or enforceable present obligation to fullfil a regulatory liability through regulated rates

B79 Paragraph B4(a) requires an entity to consider the features of its legal and regulatory framework when assessing whether it has an enforceable present right to recover a regulatory asset, or an enforceable present obligation to fulfil a regulatory liability, by adding or deducting an amount in determining the regulated rates to be charged to

customers. Examples of situations in which the entity might determine that such an enforceable present right or enforceable present obligation exists include when:

(a) the regulatory process for determining the regulated rate is set out in law and guarantees that the entity will recover its costs and earn a return on amounts included in the regulatory capital base; or

(b) the regulator has historically applied a consistent approach to cost recovery in determining the regulated rates and there is no indication of uncertainty about this approach or potential changes in it.

B80 There might be uncertainty about the existence of an enforceable present right to recover a regulatory asset or an enforceable present obligation to fulfil a regulatory liability by adding or deducting an amount in determining the regulated rates to be charged to customers during the life of the regulatory asset or regulatory liability. If such uncertainty exists, cash flows within the boundary of a regulatory agreement are those for which the entity determines it is more likely than not that such a right or obligation exists.

Compensation on termination of a regulatory agreement

B81 The term 'compensation on termination of a regulatory agreement' refers to cash flows arising from an enforceable present right to receive compensation relating to regulatory assets that have not yet been recovered or an enforceable present obligation to pay compensation relating to regulatory liabilities that have not yet been fulfilled. Such compensation could arise in a variety of situations (for example, cancellation of a regulatory agreement, non-renewal of a regulatory agreement or termination of a regulatory agreement by mutual consent).

B82 Cash flows from compensation on termination of a regulatory agreement are within the boundary of a regulatory agreement to the extent that an entity has:

(a) an enforceable present right to receive compensation for unrecovered regulatory assets; or

(b) an enforceable present obligation to pay compensation for unfulfilled regulatory liabilities.

B83 In assessing whether such an enforceable present right or enforceable present obligation exists, an entity shall consider what rights and obligations it would have if the regulator or another party were to terminate the regulatory agreement at the end of the reporting period for reasons other than the entity's failure to perform as specified in the agreement. The entity shall apply paragraphs B4–B7 to assess whether, in those circumstances, it would have an enforceable present right to receive compensation for unrecovered regulatory assets or an enforceable present obligation to pay compensation for unfulfilled regulatory liabilities to date.

B84 There might be uncertainty about the existence of an enforceable present right to receive compensation or an enforceable present obligation to pay compensation on termination of a regulatory agreement. If such uncertainty exists, cash flows within the boundary of the regulatory agreement are those for which the entity determines it is more likely than not that such a right or obligation exists.

Exercise of a termination right

B85 If a termination right has been exercised so that a contractual right to receive cash or an obligation to pay cash has been created, that right or obligation is a financial asset or financial liability. In such cases, an entity shall apply the derecognition requirements in paragraph 32 and recognise and measure the financial asset or financial liability by applying NZ IFRS 9, recognising any resulting difference in profit or loss.

Reassessment of and changes in the boundary

B86 At the end of each reporting period, an entity shall reassess the boundary of a regulatory agreement.

B87 If this reassessment changes the cash flows within the boundary of a regulatory agreement, the entity shall update the carrying amount of any affected regulatory assets or regulatory liabilities. Paragraphs 73(f) and 74 require an entity to disclose changes in the carrying amount of a regulatory asset or regulatory liability caused by a change in the boundary of a regulatory agreement, and an explanation for that change in the boundary.

Uncertain future cash flows

B88 Future cash flows arising from a regulatory asset or regulatory liability might be subject to risks that create uncertainty about the amount or timing of those cash flows. Such risks include:

(a) credit risk—the risk that some customers will not pay the amounts charged.

(b) demand risk—the risk that arises from changes between the estimated and actual demand for goods or services an entity supplies to customers in a period. Demand risk might give rise to volume variances (see paragraph B57(a)).

B89 An entity bears a risk to the extent that the regulatory agreement does not compensate the entity for the outcome of an uncertainty. In such cases, an entity shall include the effects of the uncertainty in the range of possible cash flows when estimating the future cash flows arising from a regulatory asset or regulatory liability. For example, if an entity bears credit risk, the credit risk affects the amounts receivable from customers. These amounts include the net amount from the recovery of regulatory assets and from the fulfilment of regulatory liabilities. To avoid overstating the effect of credit risk, the entity shall estimate the uncollectible amounts by considering the net cash flows that are expected to arise in the same period from regulatory assets and regulatory liabilities that are created by the same regulatory agreement. An entity shall allocate the estimate of uncollectible amounts to regulatory assets only.

B90 Customers bear a risk to the extent that a regulatory agreement provides compensation to an entity for the outcome of an uncertainty in determining future regulated rates. In such cases, an entity shall include the effects of the uncertainty and the compensation for the outcome of the uncertainty in the range of possible cash flows when estimating the future cash flows arising from a regulatory asset or regulatory liability.

B91 For example, assume an entity expects to be unable to collect some amounts from customers in a future period but the regulatory agreement provides compensation for such uncollected amounts in a period after they have not been collected. When

measuring a regulatory asset, the entity will include in the estimated future cash flows for a period the expectation that some amounts will be uncollected and include the expectation of compensation for such amounts in the estimated cash flows for the later period in which the regulatory agreement provides the compensation.

Applying this standard with IFRIC 12 *Service Concession Arrangements*

B92 NZ IFRIC 12 *Service Concession Arrangements* applies to public-to-private service concession arrangements if the grantor controls or regulates the price at which the operator must provide services, and if other specified conditions are met (see paragraph 5 of NZ IFRIC 12). Service concession arrangements within the scope of NZ IFRIC 12 might create regulatory assets or regulatory liabilities. In such arrangements, the regulator is typically the grantor as described in NZ IFRIC 12. This standard refers to the grantor as the regulator and the operator as the entity. An entity shall first apply NZ IFRIC 12 and other NZ IFRS Accounting Standards to account for rights and obligations arising from such arrangements before applying this standard to any remaining rights and obligations that meet the definition of a regulatory asset or a regulatory liability.

B93 In service concession arrangements that might create regulatory assets or regulatory liabilities, an entity's regulatory capital base includes items of infrastructure arising from the construction or upgrade services provided. In this section, the references to 'assets' refer to items of infrastructure that arise from the construction or upgrade services, and the references to 'the regulatory capital base' refer to a subset of the regulatory capital base that comprises these assets. Applying NZ IFRIC 12, the entity might account for an intangible asset arising from the consideration it receives for those construction or upgrade services. A regulatory asset or regulatory liability might arise from regulatory depreciation of the regulatory capital base, which provides compensation for the amortisation expense of that intangible asset.

B94 In applying this standard, an entity shall determine whether the regulatory capital base, or a part of the regulatory capital base, has a direct relationship with any intangible asset recognised by applying NZ IFRIC 12 (see paragraphs B59–B72). The entity shall also determine whether a difference in timing arises from the regulatory depreciation. In particular, if the service concession arrangement gives rise to:

(a) only an intangible asset—the entity shall determine whether a difference in timing arises by considering any difference between:

  (i) the recovery period or recovery pattern of the assets in the regulatory capital base; and

  (ii) the useful life or amortisation method of the intangible asset.

(b) both an intangible asset and a financial asset—a portion of the assets in the regulatory capital base relates to the intangible asset and the remaining portion relates to the financial asset. In such cases, the entity shall determine whether a difference in timing arises by considering any difference between:

  (i) the recovery period or recovery pattern of a part of the regulatory capital base—specifically, the portion of the assets in the regulatory capital base that relates to the intangible asset; and

  (ii) the useful life or amortisation method of the intangible asset.

Disclosure—Aggregation and disaggregation

B95 Paragraphs 41–43 of NZ IFRS 18 *Presentation and Disclosure in Financial Statements* set out requirements relating to the aggregation and disaggregation of information. In applying these requirements to information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities, an entity shall consider whether to use the same aggregation or disaggregation of such information provided for other purposes—for example, disclosures presented outside the financial statements, such as in regulatory reports.

B96 Examples of characteristics that might be appropriate as a basis to aggregate or disaggregate the information required by this standard about regulatory income, regulatory expense, regulatory assets and regulatory liabilities include:

(a) type of rate-regulated activity—for example, electricity distribution, gas distribution, water supply;

(b) geographical location;

(c) type of regulatory agreement—for example, service concession arrangements or contractual licensing agreements;

(d) type of items that the regulatory assets or regulatory liabilities relate to—for example, recovery of input cost variances, performance incentives, recovery of income taxes, recovery of pension costs; and

(e) exposure to substantially different risks or uncertainties.

B97 The appropriate aggregation or disaggregation might differ for different information and will also depend on the disclosure requirement and disclosure objective to which the information contributes.

Appendix C
Commencement and Application, Transition and Revocation

This appendix is an integral part of this standard and has the same authority as the other provisions of this standard.

Commencement and Application

C1 [See now paragraphs 0.2, 0.4 and 0.5.]

NZ C1.1 An entity that applies this standard for an early adoption accounting period shall disclose that fact when reporting in relation to that period.

Transitional Provisions

C2 to C17 [See now Schedule 1 paragraphs C2 to C17.]

Revocation

C18 [See now paragraph 0.6.]

Appendix D
Amendments to other NZ IFRS Accounting Standards

This appendix is an integral part of this standard and has the same authority as the other provisions of this standard.

[See now *Consequential Amendments arising from NZ IFRS 20.*]

Appendix E
Requirements for an entity that applies this standard before applying NZ IFRS 18

This appendix is an integral part of this standard and has the same authority as the other provisions of this standard.

E1 to E6 [See now Schedule 1 paragraphs NZE1.1 to E6.]

Schedule 1
Transitional, savings, and related provisions

Part 1 Provisions relating to this standard as made

Subpart 1 General transitional provisions for all entities

C1 [Not used]

C2 For the purposes of the transition requirements in paragraphs C3–C17:

(a) the **date of initial application** is the beginning of the annual reporting period in which an entity first applies this standard; and

(b) the **transition date** is the beginning of the annual reporting period immediately preceding the date of initial application. However, if an entity presents adjusted comparative information for any earlier periods:

(i) in its annual financial statements—the transition date is the beginning of the earliest adjusted comparative annual reporting period presented (see paragraph C7(a)); or

(ii) in its interim financial statements—the transition date is the beginning of the earliest adjusted cumulative comparative interim reporting period presented (see paragraph C16(a)).

C3 An entity shall, at the transition date, apply this standard to all regulatory assets and all regulatory liabilities either:

(a) as if it had always been applied in accordance with NZ IAS 8 *Basis of Preparation of Financial Statements*; or

(b) using the modified retrospective approach, as specified in paragraphs C9–C13.

C4 An entity shall, at the transition date, also apply paragraphs C6–C8, regardless of whether the entity elects to apply this standard as if it had always been applied or to use the modified retrospective approach.

C5 An entity shall, at the transition date:

(a) recognise and measure regulatory assets and regulatory liabilities as if this standard had always been applied;

(b) derecognise all regulatory balances that the entity would not have recognised as regulatory assets or regulatory liabilities if this standard had always been applied;

(c) recognise any deferred tax effects of the adjustments described in (a)–(b); and

(d) recognise the net amount of the adjustments described in (a)–(c) in opening retained earnings (or other component of equity, as appropriate).

Comparative information

C6 An entity shall:

(a) present adjusted comparative information for the annual reporting period immediately preceding the date of initial application; and

(b) disclose the quantitative information required by paragraph 28(f) of NZ IAS 8 for the annual reporting period immediately preceding the date of initial application.

C7 An entity is permitted, but not required:

(a) to present adjusted comparative information for any earlier periods presented before the beginning of the annual reporting period immediately preceding the date of initial application;

(b) to disclose the quantitative information required by paragraph 28(f) of NZ IAS 8 for the current period or any earlier periods presented as described in (a); or

(c) to disclose the information specified in paragraphs 68–83 of this standard for any earlier periods presented as described in (a).

C8 If an entity presents in its primary financial statements or discloses in the notes unadjusted comparative information for any earlier periods before the beginning of the annual reporting period immediately preceding the date of initial application, the entity shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

Transition reliefs—Modified retrospective approach

C9 At the transition date, an entity electing to use the modified retrospective approach may use one or more of the transition reliefs in paragraphs C10–C12.

C10 An entity may elect to apply the requirements for a regulatory return on assets not yet available for use in specific circumstances (see paragraphs B35–B40) only to assets that are not yet available for use at the transition date.

C11 To apply the requirements for an implied regulatory interest rate (see paragraphs 48–50 and 56–57), an entity may elect to disregard any implied regulatory interest rates that would have been derived from the terms of the regulatory agreement before the transition date.

C12 An entity may use hindsight at the transition date in applying the requirements in this standard. For example, an entity may use hindsight when estimating the cash flows arising from a regulatory asset or a regulatory liability.

C13 An entity electing to use the modified retrospective approach shall:

(a) disclose which of the transition reliefs in paragraphs C10–C12 it has applied; and

(b) describe, if appropriate, how it has applied those transition reliefs.

Interim financial statements

C14 If an entity applies NZ IAS 34 *Interim Financial Reporting* in preparing condensed interim financial statements in the first year of applying this standard, the entity shall present in the condensed interim financial statements each heading and subtotal it expects to use in applying the standard, despite the requirements in paragraph 10 of NZ IAS 34. An entity shall apply the requirements in paragraph 10 of NZ IAS 34 for headings and subtotals in condensed interim financial statements after it has issued its first set of annual financial statements prepared in accordance with this standard.

C15 If an entity applies NZ IAS 34 in preparing interim financial statements in the first year of applying this standard, the entity shall:

(a) present adjusted comparative information for the comparative interim period and the cumulative comparative interim period of the immediately preceding financial year; and

(b) disclose in the notes, as part of the information required by paragraph 16A(a) of NZ IAS 34, the amounts previously presented for each line item affected in the financial statements for the comparative interim period and the cumulative comparative interim period of the immediately preceding financial year.

C16 An entity is permitted, but not required:

(a) to present adjusted comparative information for any earlier comparative interim periods and cumulative comparative interim periods presented before the beginning of the immediately preceding financial year; and

(b) to disclose the information described in paragraph C15(b) for:

(i) the current interim period and the cumulative current interim period; or

(ii) any earlier interim periods presented as described in (a).

C17 If an entity presents in its primary financial statements or discloses in the notes unadjusted comparative information for any earlier interim periods before the beginning of the immediately preceding financial year, the entity shall clearly identify the information that has not been adjusted, disclose that it has been prepared on a different basis, and explain that basis.

Subpart 2 Additional transitional provisions for an entity that applies this standard before applying NZ IFRS 18

NZE1.1 This subpart applies to an entity that is

(a) an early adopter of this standard; but

(b) not an early adopter of NZ IFRS 18 as defined in that standard (and therefore is continuing to use NZ IAS 1 *Presentation of Financial Statements* until 1 January 2027).

E1 The entity shall apply:

(a) paragraph E2 of this subpart instead of paragraph 64 of this standard;

(b) paragraph E3 of this subpart instead of paragraph 67 of this standard;

(c) paragraph E4 of this subpart instead of paragraph B95 of this standard;

(d) paragraph E5 of this subpart; and

(e) paragraph E6 of this subpart and the standard *Consequential Amendments arising from NZ IFRS 20*.

Classification and presentation

E2 In some cases, an entity applying other NZ IFRS Accounting Standards presents an item of expense or income in other comprehensive income. In such cases, the entity shall also present in other comprehensive income regulatory income or regulatory

expense relating to that item of expense or income, as specified in paragraph 65. The entity shall:

(a) classify regulatory income and regulatory expense presented in other comprehensive income in accordance with paragraph 82A of NZ IAS 1;

(b) present regulatory income or regulatory expense separately from the related expense or related income;

(c) reclassify regulatory income or regulatory expense recognised in other comprehensive income to the statement of profit or loss if, and only if, the entity reclassifies the related expense or related income to the statement of profit or loss in accordance with other NZ IFRS Accounting Standards; and

(d) classify and present the reclassified regulatory income or regulatory expense in accordance with paragraph 62.

E3 An entity shall present in its statement of financial position:

(a) regulatory assets and regulatory liabilities as line items; and

(b) current and non-current regulatory assets, and current and non-current regulatory liabilities, as separate classifications in accordance with paragraphs 66–76B of NZ IAS 1, except when the entity presents all assets and liabilities in order of liquidity.

Disclosure

E4 Paragraphs 29–31 of NZ IAS 1 set out requirements relating to materiality and aggregation. An entity shall aggregate or disaggregate information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities in the notes, in accordance with NZ IAS 1.

Transition reference

E5 An entity applying NZ IAS 1 shall read the reference to NZ IAS 8 *Basis of Preparation of Financial Statements* in paragraph C3(a) as a reference to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Amendments to NZ IAS 1 if paragraph E1 applies

E6 In applying *Consequential Amendments arising from NZ IFRS 20*, an entity shall:

(a) read the reference to NZ IAS 8 *Basis of Preparation of Financial Statements* in the 'References' section of NZ IFRIC 12 *Service Concession Arrangements* as a reference to NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; and

(b) read the reference to NZ IFRS 18 *Presentation and Disclosure in Financial Statements* in the 'References' section of NZ SIC-29 *Service Concession Arrangements: Disclosures* as a reference to NZ IAS 1 *Presentation of Financial Statements*.

An entity applying NZ IAS 1 and the amendments to other NZ IFRS Accounting Standards set out in *Consequential Amendments arising from NZ IFRS 20* shall also apply the following amendments to NZ IAS 1.

For this purpose, text that is shown as ~~struck out~~ is deleted from the stated provision of the NZ IAS 1 and text that is shown as underlined is inserted into the provision, or is inserted as a new provision, of NZ IAS 1.

Paragraph 54(db) added

54

(db) regulatory assets as defined in NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*;

Paragraph 54(mb) added

54

(mb) regulatory liabilities as defined in NZ IFRS 20;

Paragraph 82(a) amended

82

(a) revenue, presenting separately:

(i) interest revenue calculated using the effective interest method; ~~and~~

(ii) insurance revenue (see NZ IFRS 17); and

(iii) all regulatory income minus all regulatory expense (see NZ IFRS 20);

Paragraph 139X added

139X NZ IFRS 20, issued in October 2026, amended paragraphs 54 and 82. An entity shall apply those amendments when it applies NZ IFRS 20.

Issued at Wellington on 20 October 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 New Zealand Equivalent to International Financial Reporting Standard 20 *Regulatory Assets and Regulatory Liabilities* and provides requirements on accounting for regulatory assets and regulatory liabilities, including the recognition, measurement and presentation of such assets and liabilities.

The Standard applies to accounting periods that begin on or after 1 January 2029 unless the reporting entity is an early adopter. An early adopter of this standard is required to adopt the amending standard *Consequential Amendments arising from NZ IFRS 20* when it adopts this standard.

The Standard should be read in the context of its objective and the IASB's Basis for Conclusions and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*. NZ IAS 8 *Basis for Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

The Standard is accompanied by additional material from the International Accounting Standards Board (IASB) including:

- Approval by the IASB of IFRS 20 *Regulatory Assets and Regulatory Liabilities.*
- IASB dissenting opinions.
- IASB Basis for Conclusions on IFRS 20 *Regulatory Assets and Regulatory Liabilities.*
- IASB Illustrative Examples on IFRS 20 *Regulatory Assets and Regulatory Liabilities.*

This additional material, including the Basis for Conclusions and Illustrative Examples, accompany but are not part of the standard and are available on the XRB website.

The Standard was issued by the New Zealand Accounting Standards Board acting under delegated authority of the External Reporting Board.

Compliance with IFRS 20

NZ IFRS 20 Regulatory Assets and Regulatory Liabilities and *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* together incorporates the equivalent IFRS® standard as issued by the International Accounting Standards Board (IASB).

Tier 1 for-profit entities that comply with *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* and *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* will simultaneously be in compliance with IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

In Schedule 1 of NZ IFRS 20, the paragraph references have been kept beginning with C and E, to maintain coherence with IFRS 20.

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History of Amendments

Table of instruments – NZ IFRS 20

This table lists the instruments amending this standard.

Instrument	Date made	Application date

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 20 October 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	New Zealand Equivalent to International Financial Reporting Standard NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*
Principal or amendment	Principal
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 the delegated authority of the External Reporting Board
Administering agency	External Reporting Board
Date made	20 October 2026
Publication date	29 October 2026
Notification date	29 October 2026
Commencement date	26 November 2026
End date	
Consolidation as at date	
Related instruments	

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	John Kensington, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Copy to:	Wendy Venter, Chief Executive External Reporting Board
Subject:	**Certificate Signing Memorandum – NZ IFRS 20 Regulatory Assets and Regulatory Liabilities**
Date:	October 2026

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

Action requested

1. The NZASB seeks your approval to issue *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* (the standard).

Recommendation

2. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.
3. Please notify the Chief Executive, copy myself, once you have signed the certificate of determination.

The milestones in the development of the standard

International process

4. The International Accounting Standards Board's (IASB's)[1] project began in 2008 and has taken a significant amount of time to conclude. Key steps in the IASB's project included:
   (a) **2008-2009:** The IASB first added rate-regulated activities as an active project, responding to diversity in practice and calls for guidance. A first Exposure Draft was published in 2009 focussed on a cost-of-service form of rate regulation. Following mixed and strongly divergent feedback, the IASB decided not to proceed with the 2009 proposals.
   (b) **2013:** The IASB decided to restart the project with a broader research focus, rather than jumping to accounting proposals. A request for information was issued in March 2013 with the objective to gather information on types of rate-regulatory schemes worldwide to help define the scope of any requirements and whether defined rate regulation creates distinctive rights and obligations.

[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).

(c) **2014:** The IASB issued IFRS 14 *Regulatory Deferral Accounts* as temporary relief for first-time adopters of IFRS to continue using local GAAP deferral accounting. This standard was explicitly linked to the expectation of a future comprehensive Standard.

(d) **2015-2020:** The IASB considered the feedback received and deliberated on project direction and model fundamentals. IASB analysed feedback received and gradually focused on recognising regulatory assets and regulatory liabilities arising from timing differences. The IASB also decided to narrow the model to a defined type of rate regulation.

(e) **2021:** The IASB issued a comprehensive Exposure Draft that proposed a comprehensive recognition, measurement, presentation and disclosure model and was intended to replace IFRS 14. The NZASB did not comment on the Exposure Draft, however three New Zealand stakeholders (Transpower NZ, Wellington Electricity Lines Limited, and CA ANZ/CPA Australia) submitted comment letters.

(f) **2022–2024:** The IASB considered the feedback received on the Exposure Draft and redeliberations proposals and made various decisions on the scope and defining features of rate regulation, recognition conditions (including direct relationship with assets), measurement (future cash flows, discounting) and presentation and disclosures of new balances. In July 2024, the IASB confirmed that due process had been satisfied and authorised the project to move to balloting of the final Standard.

(g) **2025:** The IASB reconsidered the sweep issues rising from the drafting of the standard, following concerns raised by some stakeholders. The IASB agreed to the removal of a minimum interest rate requirement, refinements to disclosure and transition requirements and clarifications on discounting and assumptions. The IASB also made decisions on inflation adjustments to regulatory capital bases, clarification of the direct relationship notion and other final drafting refinements ahead of issuance.

(h) **2026:** The IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities* in May 2026 which is mandatory for annual periods beginning on or after 1 January 2029.

5. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the Exposure Draft and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's July 2024 meeting, and all 14 IASB members (at the time) agreed with this decision.

6. The IASB has noted throughout their Basis for Conclusion on IFRS 20 three core reasons for why re-exposure of the requirements was not considered necessary:

   (a) **Stakeholder feedback showed broad support and no fundamental changes were made** – The IASB did not re-expose the proposals because feedback showed strong support for the Exposure Draft's core principle that entities should recognise the total allowed compensation in the same reporting period (BC9). Respondents agreed with the definitions, scope and overall model (BC11–BC14), and clarifications made after consultation simply made the requirements clearer (BC41). Since the fundamental approach remained intact, further consultation was unnecessary.

(b) **Changes made after the Exposure Draft were responsive clarifications, not conceptual reversals** – The IASB concluded that re-exposure was not required because post-Exposure Draft changes were limited to clarifications—such as enforceability (BC35–BC37), regulatory returns (BC67–BC79), and discounting simplifications (BC214–BC222)—rather than conceptual changes. For example, the minimum interest rate proposal was removed because the costs would outweigh the benefits (BC222). These refinements did not alter the underlying model, so re-consultation was not considered necessary.

(c) **The IASB judged that re-exposure would not provide new information** – The IASB judged that re-exposure would not provide new insights because the final requirements remained consistent with the cash-flow-based measurement approach (BC170) and use of the regulatory interest rate (BC207). The IASB noted that regulatory cash flows are generally stable and predictable (BC128), and no changes were made that would reasonably change stakeholder views and so re-consultation was not warranted.

7. The Due Process Oversight Committee (DPOC) also considered the due process lifecycle review of this project in June 2025, covering the entire development of the rate regulated activities project, and confirmed that all due process requirements had been met. The DPOC, in July 2025, considered stakeholder concerns about non re-exposure of the standard, but continued to treat the project as having completed its due-process steps.

8. Rate regulation is a form of regulation that sets the regulated rates (sometimes called the prices or tariffs) that entities can charge customers for goods or services. IFRS 20 *Regulatory Assets and Regulatory Liabilities*, applies to all entities that are subject to a specific type of rate regulation—that is, rate regulation that creates differences in timing. Differences in timing arise when part or all of the compensation for regulatory goods or services supplied in one reporting period is included in the regulated rates charged to customers in a different period.

9. If such differences in timing arise and are not accounted for, an entity's statement of profit or loss for a reporting period provides incomplete information about the compensation an entity is entitled to for regulatory goods or services that it supplies in the period.

10. IFRS 20 will improve the quality of financial reporting by requiring entities to account for the effects of differences in timing through the recognition of regulatory assets and regulatory liabilities and related regulatory income and regulatory expense.

11. IFRS 20 is expected to reduce diversity in accounting practices and give investors a better understanding of:

- The compensation an entity is entitled to for regulatory goods or services supplied in a reporting period, which will provide insights into the entity's financial performance and prospects for future cash flows; and
- An entity's regulatory assets and regulatory liabilities, which will provide insights into the entity's financial position at the reporting date and the amount, timing and uncertainty of its future cash flows.

12. An entity applies IFRS 20 when all of the following are present:

(a) A regulator exists;

(b) A regulatory agreement exists;

(c) The regulatory agreement prescribes the regulated rate that the entity charges for goods or services that it supplies to customers;

(d) The regulatory agreement provides for differences in timing whereby part or all of the total allowable compensation for regulated goods or services supplied during a reporting period is included in regulated rates charge to customers in a different period (part or future); and

(e) The regulatory agreement creates an enforceable present right or an enforceable present obligation to add or deduct an amount in determining a regulated rate to be charged to customers in a future period.

13. The IASB standard was approved with affirmative votes of 12 out of 13 IASB members in July 2024. One IASB member abstained in view of their recent appointment to the IASB. 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.

14. The IASB issued *IFRS 20 Regulatory Assets and Regulatory Liabilities* in May 2026, which is mandatory for annual periods beginning on or after 1 January 2029.

Domestic process, including a summary of the major issues raised by stakeholders and the conclusions reached

15. Given the limited impact of rate regulation in New Zealand, the NZASB did not actively hold any consultation activities in 2021 while the IASB's ED consultation period was open. The NZASB did not comment on the Exposure Draft and the NZASB did not receive any comment letters from New Zealand constituents during the consultation period. However, three New Zealand stakeholders (Transpower NZ, Wellington Electricity Lines Limited, and CA ANZ/CPA Australia) submitted comment letters.

16. The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements).

17. Since 2024, the Chair of the NZASB also participated in the Accounting Standard Advisory Forum (ASAF) which discussed developments in the proposed requirements, where she communicated New Zealand feedback on the proposals directly to the IASB. New Zealand stakeholder views on the impact of these requirements on New Zealand entities were gathered from the Accounting Technical Reference Group (TRG) throughout 2024 to 2026.

18. Based on the IASB's conclusions, the independent review performed by the DPOC and the rationale for the IASB's decisions being explained publicly within their Basis for Conclusions, we consider the IASB's due process to be reasonable. Given the XRB's financial reporting strategy to align with IFRS requirements and as this has been issued by the IASB as a final IFRS Accounting Standard, the NZASB do not consider it appropriate to

perform any further consultations on these requirements prior to issuing the NZ IFRS Accounting Standard.

19. In October 2026, the NZASB agreed to issue *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* subject to your agreement to sign the attached Certificate Signing Memorandum. The standard was approved with affirmative votes of 9 out of 9 NZASB members.

20. The technical requirements within the standard is identical to *IFRS 20 Regulatory Assets and Regulatory Liabilities* standard issued by the IASB, which ensures international harmonisation with full IFRS Accounting Standards.

21. The only local modifications made to the standard are:

    (a) A New Zealand specific introduction, formatting, numbering and explanatory note (including a minimum legislative information table) to comply with the Parliamentary Counsel Office's (PCO's) best practice guidelines around drafting secondary legislation;

    (b) A New Zealand specific scope paragraph explaining that the standard applies to Tier 1 and Tier 2 for-profit entities;

    (c) New Zealand specific wording for the commencement and application of the standard and other minor changes to align with best practice legislative guidelines in New Zealand.

Revocation of NZ IFRS 14 Regulatory Deferral Accounts

22. When the IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities*, the IASB also agreed to revoke IFRS 14 *Regulatory Deferral Accounts*, effective from the same mandatory date of 1 January 2029.

23. As such, NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* replaces NZ IFRS 14 *Regulatory Deferral Accounts* and is intended to provide consistent requirements for accounting for rate regulation as opposed to the requirements which were grandfathered into NZ IFRS 14.

24. We consider the same due process followed on NZ IFRS 20 above applies to the revocation of NZ IFRS 14, as clear messaging has been provided at all stages of the IASB project that IFRS 20 was developed as a replacement for IFRS 14.

25. NZ IFRS 14 continues to remain in force until NZ IFRS 20 is adopted by entities and would not be allowed to be used for reporting periods beginning on or after 1 January 2029.

Compliance with due process requirements

26. The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on any of the Exposure Drafts, however some New Zealand stakeholders did respond directly to the IASB on the 2021 Exposure Draft.

27. The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and

minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements).

28. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the Exposure Draft and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's July 2024 meeting.

29. The Due Process Oversight Committee (DPOC) also considered the due process lifecycle review of this project in June 2025, covering the entire development of the rate regulated activities project, and confirmed that all due process requirements had been met. The DPOC, in July 2025, considered stakeholder concerns about non re-exposure of the standard, but continued to treat the project as having completed its due-process steps.

30. Based on the IASB's conclusions, the independent review performed by the DPOC and the rationale for the IASB's decisions being explained publicly within their Basis for Conclusions, we consider the IASB's due process to be reasonable. We do not consider it appropriate for the XRB to perform any further consultations on these requirements, given the XRB's financial reporting strategy to align with IFRS requirements and given this has been issued as a final IFRS standard, there is no scope to amend recognition and measurement requirements.

31. We consider that the process followed by the NZASB complied with the due process requirements established by the XRB Board, including the consultation requirements of section 22 of the Financial Reporting Act 2013.

An explanation of how the standard is consistent with the XRB Board's financial reporting strategy

32. The adoption of the standard is consistent with all three elements of the XRB Board's Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the current Accounting Standards Framework.

33. This standard introduces several new disclosure requirements to support the new regulatory asset and regulatory liabilities balances to be recognised. The NZASB considered these disclosures to be important contextual information for users to understand the new regulatory asset and regulatory liabilities balances to be recognised (including expected future cash flows relating to these new assets and liabilities). As such, no RDR concession are proposed for Tier 2 entities and we do not plan to consult and seek feedback on any proposed Tier 2 disclosure requirements.

Review of the standard as required by the Regulatory Standards Act 2025 (RS Act)

The standard has been reviewed as required by the RS Act

34. The standard and the process for developing it has been reviewed and assessed in accordance with the RS Act, including as to consistency with the principles of responsible regulation set out in under that Act.

35. For the purposes of the RS Act, no inconsistencies have been identified.

36. Full details of the review and assessment are set out in the Regulatory Standards Act Assessment document for this standard.

Benefits and costs have been considered in line with the RS Act

37. The review and assessment included a review of the benefits and costs of the standard as provided for by the RS Act.

38. For the purposes of the RS Act, it is considered that the benefits exceed the costs.

Consistency Accountability Statement

39. We have sent a memorandum to the Chief Executive recommending that the Chief Executive signs the consistency accountability statement as required by the RS Act on the basis of the review and assessment referred to in paragraphs 30-34 above.

40. The Chief Executive will confirm by email when she is ready to make the consistency accountability statement.

Whether it was necessary to consult with the Privacy Commissioner under section 22(2) of the Financial Reporting Act 2013, and if so, the outcome of that consultation.

41. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information.

42. No such consultation is required in relation to this standard.

We considered the Australian developments and harmonisation

43. External Reporting Australia (ERA) is expected to approve a standard based on *IFRS 20 Regulatory Assets and Regulatory Liabilities* soon as AASB 20 *Regulatory Assets and Regulatory Liabilities*. This will maintain alignment with NZ IFRS with AASB and IFRS requirements.

44. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia.

45. ERA now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. ERA is expected to consider the effect of *IFRS 20 Regulatory Assets and Regulatory Liabilities* on AASB 1060 at a later date.

46. This will maintain alignment with NZ IFRS with Australian and IFRS requirements for Tier 1 entities.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Any other matters the technical board considers should be drawn to the attention of the XRB Chair or the designated alternate

47. There are no other matters relating to the issue of this standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Attachments

- NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*
- Certificate of determination
- Draft Consistency Accountability Statement Assessment File Note

Dr Carolyn Cordery
Chair NZASB

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Assessment for Consistency Accountability Statement

Reference number	XRB 2026/62
Subject	**Regulatory Standards Act assessment to support Consistency Accountability Statement**
Related to	***NZ IFRS 20 Regulatory Assets and Regulatory Liabilities***
Date of technical board discussion of this assessment	12 October 2026
Approval Date	20 October 2026

Guidance and instructions

- *This template includes italicised guidance and instructions in green to explain the statutory guidance available to help to complete a Regulatory Standards Act (**RS Act**) Assessment that underpins a Consistency Accountability Statement.*
- *The green italicised content, such as this textbox, should be retained in the RS Act Assessment that is submitted to the board (**the Approving Board**) being asked to approve a new or amendment standard or authoritative notice.*
- *None of the green italicised content should be included in the final version of the RS Act Assessment.*

Purpose

1. Section 3(1) of the Regulatory Standards Act 2025 (**RS Act**), insofar as it relates to secondary legislation states that the purposes of the RS Act are to:
   (a) promote the accountability of the Executive to Parliament for the development of high-quality legislation
   (b) support Parliament in overseeing and controlling the use of delegated powers to make legislation.
2. The RS Act also:
   (a) lists principles of responsible regulation (**the principles**)
   (b) requires agencies responsible for making secondary legislation to publish:
      i. a Consistency Accountability Statement (**CAS**) confirming that the agency has reviewed the legislation and the process for developing it for consistency with the principles and summarising any identified inconsistency
      ii. a statement that briefly explains the reasons for any inconsistency.
3. This RS Act assessment documents the analysis and processes that underpin the CAS for *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* (**XRB 2026/62**).
4. NZ IFRS 20 establishes a comprehensive accounting model for rate-regulated activities, requiring entities to recognise and explain the financial effects of regulation on performance and financial position and is intended to give users a better understanding of:

- The compensation an entity is entitled to for regulatory goods or services supplied in a reporting period, which will provide insights into the entity's financial performance and prospects for future cash flows; and
- An entity's regulatory assets and regulatory liabilities, which will provide insights into the entity's financial position at the reporting date and the amount, timing and uncertainty of its future cash flows.

Summary of this RS Act Assessment

5. The Chief Executive, the responsible Director and the Director's staff have assessed *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* (XRB 2026/62) and the process for developing it for consistency with the principles.
6. We have not identified any inconsistencies.
7. The Chair of the NZASB, has reviewed this RS Act Assessment and agrees with the conclusions, as part of recommending to the XRB Board that XRB 2026/62 is issued. The NZASB's review is done for the purposes of providing advice to the Chief Executive, so that she can form an independent assessment of whether XRB 2026/62, and the process for developing it, have any inconsistencies with the principles.

The scope of XRB's statutory powers

8. The XRB makes the following secondary legislation under sections 12 and 20 of the Financial Reporting Act 2013 (**FR Act**):
   (a) Financial reporting standards and authoritative notices that govern the content of general purpose financial statements.
   (b) Climate standards and authoritative notices that govern the content of climate statements prepared under Part 7A of the Financial Markets Conduct Act 2013 (**the FMC Act**).
   (c) Auditing and assurance standards, related service standards, and professional and ethical standards that contribute to the system for regulating assurance practitioners.

The context for this RS Act Assessment

9. Many enactments require for-profit entities to prepare and publish financial statements in accordance with generally accepted accounting practice (**GAAP**). Section 8 of the FR Act states that financial statements comply with GAAP only if they comply with:
   (a) applicable financial reporting standards
   (b) in relation to matters for which no provision is made in applicable financial reporting standards, an authoritative notice.
10. The objective of general purpose financial reporting by for-profit entities is to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.
11. XRB 2026/62 is not stand-alone regulation. It adds to the suite of financial reporting standards that apply to Tier 1 and Tier 2 for-profit entities. The purpose of XRB 2026/62 is to improve the overall quality of the suite of financial reporting standards that apply to this class of reporting entity. Therefore, this assessment, particularly the analysis of costs and benefits, relates to the incremental impact of XRB 2026/62.

Applying the principles of responsible regulation

General comment on applying the statutory guidance
Some checklist items in the statutory guidance would require detailed analysis and documentation when evaluating consistency with the applicable principle. This situation arises because the statutory guidance appears to be premised on the assumption that the proposed legislation would establish or disestablish a regulatory system, increase the scope of a regulatory system, or increase or reduce the classes of number of entities or persons subject to existing regulation. This is not the case with the XRB's standards.

The statutory guidance states that:

- *the statutory guidance is not intended to provide an exhaustive list of all considerations that might be relevant when completing a CAS, or to define precisely what inconsistency with the principles might look like in all situations*
- *the statutory guidance sets out best practice and expectations in relation to what agencies should consider when undertaking their own assessments for the purposes of preparing a CAS, to help promote a standardised approach across agencies*
- *the individual circumstances and context of a piece of legislation are relevant to an assessment, and the guidance should be read in light of those circumstances, as well as the purpose of the Act.*

The guidance in this RS Act Assessment template aims to faithfully apply each principle and sub-principle in a proportionate manner in line with the XRB's narrow-scope powers to make secondary legislation.

12. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated XRB 2026/62 against all principles.

13. We have, in preparing this RS Act Assessment, considered the statutory guidance jointly issued in May 2026 by the Attorney-General and Minister for Regulation under section 26 of the RS Act.

S9(a)(i): The legislation should be clear and accessible

The principle

14. Section 9(a)(i) states that "the law should be clear and accessible". We have not identified any inconsistencies in XRB 2026/62 with this principle.

Statutory guidance on accessibility
The statutory guidance states that legislation should be easy to find by those it applies to. It also states that agency-published legislation should be published in full on the agency's website.

Guidance to XRB staff
The XRB invariably complies with this principle because we publish our standards on the XRB's website and they are easy to find.

Statutory guidance on clarity

The statutory guidance states that:

- *the degree of clarity that is expected depends on the context, including who it applies to*
- *the legislation needs to be clear to its intended audience*
- *legislation that is mainly used by specialists and technical experts may be clear despite using technical terms*
- *in some cases, clarity of law can be enhanced by using technical content*
- *legislation that is cross-referenced (e.g. definitions in other legislation) and material incorporated by reference should be assessed in the same way as the legislation itself.*

Guidance to XRB staff

The statutory guidance, as summarised above applies in full to the XRB.

Accessibility

15. The XRB 2026/62 and the IASB's Basis for Conclusions will be published on the accounting standards page on the XRB's website on the date that it was gazetted.

16. All extant XRB standards are searchable using the XRB Standards Navigator. There will be a time delay between the XRB 2026/63 being issued and the HTML version being published on the XRB Standards Navigator. Given the mandatory date of XRB 2026/63 is 1 January 2029, we will look to ensure the HTML version is accessible to the public well in advance of the mandatory date.

Clarity

17. XRB 2026/62 is a New Zealand equivalent to *IFRS 20 Regulatory Assets and Regulatory Liabilities* which was issued by the International Accounting Standards Board (**IASB**). There are significant differences between the drafting approach and style used by the IASB and by the Parliamentary Counsel Office.

18. Except where changes have been considered appropriate having regard to New Zealand circumstances and law, we have generally used the same structure and wording in XRB 2026/62 as in the IASB's standard because it preserves global reporting consistency and comparability, avoids the risk of contradictions with other parts of XRB 2026/62 and other reporting standards, reduces the risk of disputes and reduces compliance costs. There are risks of other unintended consequences if a unique New Zealand version of the international standard were to be issued using a different drafting approach and style.

19. XRB 2026/62 cross-refers to the definition(s) including in other NZ IFRS Accounting Standards. We consider that the definition(s) cross-referred to are clear to the intended audience of Tier 1 and Tier 2 for-profit entities who are already familiar with and apply NZ IFRS Accounting Standards.

S9(a)(ii): The legislation should not adversely affect rights and liberties, or impose obligations, retrospectively

20. We have not identified any inconsistencies in XRB 2026/62 with this principle. Consistent with the prohibition on retrospectivity in section 28(2)(b) of the Financial Reporting Act 2013, XRB 2026/62 does not have retrospective effect.

S9(a)(iii): Every person is equal before the law

21. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to unequally administer the law.

S9(a)(iv): There should be an independent, impartial judiciary

22. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to compromise the independence or impartiality of the judiciary.

S9(a)(v): Issues of legal right and liability should be resolved by the application of the law, rather than the exercise of administrative discretion

23. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB issues standards as secondary legislation. These standards do not provide for the resolution of legal rights and liability in a manner that is contrary to the rule of law.

S9(b)): Legislation should not unduly diminish a person's liberty, personal security, freedom of choice or action, or rights to own, use and dispose of property without the consent of the owner except as is necessary to provide for, or protect, any such liberty, freedom, or right of another person

Statutory guidance on liberties
It is clear from the statutory guidance that the liberties principle only applies to natural persons. It also states that:

- *While most legislation involves setting some form of limit on rights or liberties, the intent is not to capture every situation where a liberty may be diminished to any degree.*
- *This principle is only breached if the legislation both unduly diminishes rights or liberties, and does so more than is needed to provide for or protect others' rights and liberties.*

24. We have not identified any inconsistencies in XRB 2026/62 with this principle. XRB 2026/62 does not unduly diminish any of the rights or liberties referred to in this principle.

S9(c): Taking or severely impairing property without the owner's consent

25. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to take or severely impair private property.

S9(d)-(f): Taxes, fees and levies

26. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to impose or authorise the imposition of a tax, fee or levy.

S9(g): Legislation should preserve the courts' constitutional role of ascertaining the meaning of legislation

27. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to make an authoritative determination of the meaning of a standard or interfere with the judicial process in particular cases before the courts.

S9(h): Legislation should make rights and liberties, or obligations, dependent on administrative power only if the power is sufficiently defined and subject to appropriate review

28. We have not identified any inconsistencies in XRB 2026/62 with this principle. The XRB does not have the statutory power to make rights, liberties and obligations dependent on administrative power or limit judicial review.

S9(i): Consultation

The principle

29. Section 9(i) refers to "the importance of consulting, to the extent that is reasonably practicable, the persons or representatives of the persons that the responsible agency considers will be directly and materially affected by the legislation". We have not identified any inconsistencies in XRB 2026/62 with this principle.

> ***Statutory guidance on consultation***
> *The statutory guidance states that the expectation is that the focus of the assessment should be on consultation with persons outside Government.*
>
> *Much of the statutory guidance on consultation relates to the 'reasonably practicable' exception in s9(i). It states that this is a genuine urgency exception. Genuine urgency only arises when the legislation is needed for reasons beyond the responsible agency's control, such responding to a national emergency. It does not apply merely because the agency decided to act with urgency. For example, an agency that fails to consult with all directly and materially affected persons or their representatives because it legislated quickly in response to external pressures will have acted inconsistently with the principle.*

Our consultation on XRB 2026/62

30. XRB 2026/62 will directly and materially affect:

    (a) Tier 1 and Tier 2 for-profit financial reporting entities[1] that have regulated activities;

    (b) Users of Tier 1 and Tier 2 for-profit financial reporting entities ; and

    (c) Practitioners who conduct audits of historical financial information of Tier 1 and Tier 2 for-profit financial reporting entities.

31. The IASB's project on IFRS 20 began in 2008 and has taken a significant amount of time to conclude.

32. Throughout 2022–2024, the IASB considered the feedback received on the Exposure Draft and redeliberations proposals and made various decisions on the scope and defining features of rate regulation, recognition conditions (including direct relationship with assets), measurement (future cash flows, discounting) and presentation and disclosures of new balances. In July 2024, the IASB confirmed that due process had been satisfied and authorised the project to move to issuing the final Standard.

[1] This class of financial reporting entity is defined in Section B of XRB A1: Application of the Accounting Standards Framework.

33. The XRB has consulted with those would be directly and materially affected by the proposals as part of our consultation processes under the FR Act. We took the following steps to consult in New Zealand and consider the responses made by New Zealand stakeholders:

    (a) The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on any of the Exposure Drafts, however some New Zealand stakeholders did respond directly to the IASB on the 2021 Exposure Draft.

    (b) The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements within the measurement model). The XRB did not receive any further comments from the New Zealand submitters after the Exposure Draft period.

    (c) As part of the XRB's participation on the Accounting Standards Advisory Forum (ASAF), we regularly received updates on the progress made by the IASB on IFRS 20 and shared these with our Accounting Technical Reference Group (TRG) throughout September 2024 to July 2025 and gathered their feedback which was shared with the IASB as part of their considerations. No issues were raised as part of the updates which would directly or materially impact other stakeholders.

S9(j): Evaluation

The principle

34. Section 9(j) refers to the importance of carefully evaluating:

    i. the issue concerned
    ii. the effectiveness of any relevant existing legislation and common law
    iii. whether the public interest requires that the issue be addressed
    iv. any options (including non-legislative options) that are reasonably available for addressing the issue
    v. who is likely to benefit, and who is likely to suffer a detriment, from the legislation.

35. We have not identified any inconsistencies in XRB 2026/62 with this principle.

Section 9(j)(i) – The importance of carefully evaluating the issue concerned

The statutory guidance on evaluating the issue
The statutory guidance states that the agency should develop a clear problem definition that identifies and (to the extent feasible) quantifies the problem that the proposed legislation seeks to address. This involves:

- *identifying the problem and its root causes, including consideration of whether any market failure is involved*
- *assessing the nature, scale, and urgency of the issue, to the extent possible, based on available evidence*
- *assessing why the issue is significant and what will happen if it is not addressed, including any opportunity cost.*

36. XRB 2026/62 is the New Zealand equivalent of IFRS 20 *Regulatory Assets and Regulatory Liabilities*. NZ IFRS 20 is based on IFRS 20 and is expected to improve the quality of financial reporting by requiring companies to provide information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

37. Regulatory assets and regulatory liabilities are a subset of the rights and obligations created by a regulatory agreement. These rights and obligations can affect a company's financial performance and financial position, and users of financial statements' assessment of the company's future cash flows. Companies applying IFRS Accounting Standards were previously not required to report such information.

38. IFRS 20 helps to fill a gap in IFRS Accounting Standards globally. It supplements the requirements in IFRS 15 *Revenue from Contracts with Customers* by requiring companies to provide information that gives insights into the total amount of compensation to which a company is entitled for regulatory goods or services supplied in the period (thereby giving a more complete picture of the revenue earned from those goods and services).

39. IFRS 20 is intended to reduce diversity in accounting practice globally. All entities applying IFRS Accounting Standards across jurisdictions will apply the same set of requirements for providing information about regulatory assets and regulatory liabilities in their financial statements, which will provide consistent information to users and allow for greater comparability around regulatory assets and regulatory liabilities for relevant entities.

40. For IFRS Accounting Standards, if New Zealand did not adopt the relevant standard or amendment, then affected for-profit Tier 1 entities would no longer be able to assert compliance with IFRS Accounting Standards. Maintaining compliance with all applicable IFRS Accounting Standards is important for New Zealand because it enables Tier 1 for-profit entities to continue asserting IFRS compliance. This supports access to global capital markets by providing international investors with financial information that is consistent, comparable and credible.

41. The XRB therefore needs to adopt all standards and amendments issued by the international body, subject to New Zealand's due process, if New Zealand for-profit Tier 1 entities are to continue to assert IFRS compliance. This was an important consideration for Tier 1 entities when developing the Accounting Standards Framework and using IFRS Accounting Standards for for-profit entities.

42. For Tier 2 entities. maintaining the same recognition and measurement requirements with Tier 1 entities is important, as these entities are economically significant to New Zealand and consistent requirements help users and stakeholders understand, compare and make decisions based on consistent for-profit entity financial statement information. This was an important consideration for Tier 2 entities when developing the Accounting Standards Framework and using IFRS Accounting Standards for for-profit entities.

Section 9(j)(ii) – The importance of carefully evaluating the effectiveness of existing law

The statutory guidance on the effectiveness of existing law

The statutory guidance states that the agency should assess whether existing legislation and common law already address the problem. This involves:

- *identifying what current legislation or common law is relevant to the issue and assessing whether and how it is already working to address the issue or issues*
- *identifying any gaps, overlaps, or inefficiencies.*

43. Current legislation and common law do not effectively address the issue as there are no current formal reporting requirements which require companies to provide information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense

Section 9(j)(iii) – The importance of carefully evaluating whether the public interest requires that the issue be addressed

> ***The statutory guidance on the public interest***
> *The statutory guidance states that the agency should consider whether (based on available evidence) the scale, urgency, and impact of the issue indicates that it needs to be addressed in the public interest.*

44. It is in the public interest to issue *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* to facilitate New Zealand entities access to global capital markets and to allow for international comparability of financial statements through a common set of financial reporting requirements.

45. It is also in the public interest for XRB 2026/62 to apply from the same date as IFRS 20. The New Zealand standard and the international standard would impose different requirements for a time if the application dates were different if the application dates were to be different, which would cause misalignment with New Zealand entities and comparable international entities.

Section 9(j)(iv) – The importance of carefully evaluating any options that are reasonably available for addressing the issue

> ***The statutory guidance on options***
> *The statutory guidance states that the agency should:*
> - *consider non-legislative options – noting that the policy objective might be achieved more effectively through education programmes, reliance on the common law or existing legislation, or reliance on existing civil remedies*
> - *identifying all feasible options (or groups of options) that would address the identified problem or achieve the identified objective, including any deregulatory options*
> - *assessing the effectiveness, cost, and feasibility of these options relative to each other and to the status quo.*

46. The XRB publishes non-legislative guidance, but usually to provide guidance about a standard, not as an alternative to issuing a standard. We publish guidance because it:

    (a) provides practical support for applying standards

    (b) helps reporting entities, assurance providers, users and regulators understand and implement complex rules

    (c) promotes reporting or assurance consistency among entities and practitioners that choose to use it.

47. There are no reasonably available non-legislative options. It is essential for New Zealand reporting entities to prepare financial statements in accordance with all International Financial

Reporting Standards to promote worldwide user understandability, cross-border comparability and facilitate reporting entities' access to capital.

Section 9(j)(v) – Distributional impacts

> ***The statutory guidance on distributional impacts***
> *The statutory guidance states that agencies should identify:*
> - *those are affected by the legislation and how those effects differ across different groups*
> - *any equity or fairness issues that have arisen because of the legislation*
> - *any unintended consequences that have resulted for any groups.*

48. The purpose of XRB 2026/62 is to improve the overall quality of the financial reporting requirements that must be applied by Tier 1 and Tier 2 for-profit entities. Primary users benefit in the form of better decision-making and accountability information. Reporting entities benefit by obtaining increased access to capital. The costs of reporting are borne largely by reporting entities.

49. There are no fairness or equity issues.

S9(k): Implementation

The principle

50. The principle identifies the importance of the responsible agency identifying and developing effective arrangements for implementing the legislation.

> ***The statutory guidance on implementation***
> *The statutory guidance states that agencies should:*
> - *develop an overall strategy for implementing the chosen option, including the steps and actions required*
> - *identify the key risks associated with the implementation of the legislation, and develop possible mitigation strategies to address these risks*
> - *identify the roles and responsibilities of all parties involved in the implementation process, including the responsible agency and any other stakeholders*
> - *identify the resources required for implementation, including financial, human, and technical resources.*

51. The new standard is the New Zealand equivalent of IFRS 20. The IASB has produced several implementation support materials which will help New Zealand entities in their implementation of NZ IFRS 20. These resources have all been linked on the accounting standards page on the XRB's website.

52. We will educate and support the requirements of the new standard through our communication channels and through our webinars. We also plan to engage directly with the Commerce Commission's Infrastructure Regulation Branch and regulated entities in New Zealand who would be impacted by the requirements of XRB 2026/62. These include electricity distribution businesses and gas pipeline businesses) who are regulated under Part 4 of the Commerce Act through 'price-quality paths' regulatory tools. We will look to hold implementation roundtable on practical issues around XRB 2026/62, where considered necessary.

53. While XRB 2026/62 is applicable to all Tier 1 and Tier 2 entities, only a limited smaller population or regulated Tier 1 and Tier 2 entities will be significantly impacted by the new requirements. As such, the impacted regulated entities will likely have the resources available to implement XRB 2026/62 given their familiarity with complex regulated processes, and we do not anticipate committing significant time or resources to support implementation.

54. The XRB will continue to monitor any challenges and implementation issues around NZ IFRS 20 and will respond proportionately through either referral to available international resources or to the IFRS Interpretations Committee if considered appropriate.

55. Overall, we have not identified any inconsistencies in XRB 2026/62 with this principle.

S9(l): Benefits exceed the costs

The principle

56. The principle states that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or persons. Our analysis of benefits and costs of XRB 2026/62 appears in Appendix A.

> ***The statutory guidance on benefits and costs***
> *The statutory guidance states that agencies should:*
> - *identify all expected major costs and benefits*
> - *quantify and monetise costs and benefits in dollar terms to the extent feasible*
> - *identify and disclose any expected effects that cannot be monetised*
> - *identify who is expected to benefit and who is expected to bear the costs*
> - *disclose any risks or uncertainties, or any key assumptions affecting the analysis.*

57. We are satisfied that the benefits exceed the costs for the reasons stated in Section E of Appendix A.

S9(m) – Effectiveness, efficiency and proportionality

The principle

58. The principle states that the legislation should be the most effective, efficient and proportionate response to the issue concerned that is available.

59. We have not identified any inconsistencies in XRB 2026/62 with this principle.

> ***The statutory guidance on effectiveness, efficiency and proportionality***
> *This principle focuses on ensuring that the legislation is the optimal response to the policy problem or objective it aims to address or achieve, within the options reasonably available. Assessments of consistency against this principle can draw on assessments made against the other principles, particularly the other good law-making principles. More specifically:*
> - ***Effectiveness**: There should not be other options that can better achieve the defined objectives or deliver more net benefits.*
> - ***Efficiency**: There should not be other options that achieve the defined objectives with the same benefit at less cost.*
> - ***Proportionality**: There should not be other responses that would align better with the level of severity, urgency and/or scope of the issue in question, and/or would be more flexible or less costly.*

60. Issuing XRB 2026/62 is the most effective, efficient and proportionate response to give users a better understanding of regulatory assets and regulatory liabilities for entities, reduce diversity in accounting practice globally and provide support access to global capital markets by providing international investors with financial information that is consistent, comparable and credible.

Attachments

- Appendix A – Benefits and Costs Assessment

Appendix A – Benefits and Costs Assessment

This Appendix records the XRB's assessment of whether the expected benefits of issuing or adopting a standard are likely to exceed the expected costs, consistent with the good law-making principle in section 9(l) of the Regulatory Standards Act 2025.

Links

Section A – XRB approach to evaluating benefits and costs

Section B – International benefit-cost considerations

Section C – Domestic benefit-cost considerations

Section D – Benefit-cost questions and feedback from respondents

Section E – Overall conclusion

Standard Name	**NZ IFRS 20 Regulatory Assets and Regulatory Liabilities**
Standard Reference	**XRB 2026/62**
Principal Standard(s) / Amendment	**Principal Standard**
Significant impact/ narrow-scope	**Significant impact**
Impacted entities	**Tier 1 and Tier 2 For-Profit Entities**

Section A – XRB approach to evaluating benefits and costs

The purpose of this appendix is to record the XRB's assessment of the major expected benefits and costs of issuing or adopting XRB 2026/62. The assessment supports the good law-making principle that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or to persons.

This assessment compares the expected future state if XRB 2026/62 is issued or adopted with the counterfactual position if XRB 2026/62 is not issued. It identifies the main affected parties, the expected benefits and costs, distributional impacts, uncertainty and the extent to which benefits and costs can be quantified or monetised.

The purpose of the XRB's standards is to promote trust and confidence, transparency and accountability through high-quality external reporting and assurance. We do this by establishing and maintaining robust frameworks and standards that are internationally credible and locally relevant. The development of New Zealand standards in line with the XRB's due process requirements, build on the due process, research, consultation and effects analysis undertaken by international standard-setting bodies, assessing whether the resulting requirements are appropriate for New Zealand. The XRB therefore considers both the factual position and the counterfactual position, including what would occur if XRB 2026/62 were not issued or adopted.

The analysis carried out by the relevant international standard setting board provides the starting point. Our domestic analysis then considers whether those benefits and costs are relevant, proportionate and sufficiently evidenced in the New Zealand context.

This assessment has been prepared with reference to the Ministry for Regulation's cost-benefit analysis resource. Consistent with that guidance, the XRB applies a proportionate approach and addresses the following matters:

- Identify all expected major benefits and costs
- Identify who is expected to benefit and who is expected to bear the costs
- Quantify and monetise benefits and costs in dollar terms to the extent feasible
- Identify and disclose any expected effects that cannot be monetised
- Disclose any risks or uncertainties, or any key assumptions affecting the analysis.
- Compare the factual and counterfactual positions, including the consequences of no regulatory change.

Section B – International benefit-cost considerations

The International Accounting Standards Board (IASB) sets IFRS Accounting Standards. The IASB has identified the following benefits and costs associated with its proposed global standard, on which the New Zealand standard is based. These matters are outlined in the IASB's Basis for Conclusions, global Effects Analysis and other supporting material.

For IFRS Accounting Standards, the counterfactual is that New Zealand does not adopt the relevant standard or amendment. In that case, affected for-profit Tier 1 entities would no longer be able to assert compliance with IFRS Accounting Standards, because IFRS compliance requires compliance with all applicable IFRS Accounting Standards, which would impact on Tier 1 entities ability to access global capital markets as investors need consistent and comparable information to make effective capital decisions.

The XRB therefore needs to adopt all standards and amendments issued by the international body, subject to New Zealand's due process, if New Zealand for-profit Tier 1 entities are to continue to assert IFRS compliance. For Tier 2 entities. maintaining the same recognition and measurement requirements with Tier 1 entities is important, as these entities are economically significant to New Zealand and consistent requirements help users and stakeholders understand, compare and make decisions based on consistent for-profit entity financial statement information.

The other major expected benefits and costs are as follows.

Qualitative Assessment

Major expected benefits (International)
• **More complete information about performance and compensation (users):** XRB 2026/62 provides a more complete picture of a regulated entity's financial performance by recognising the full compensation to which the entity is entitled for goods or services supplied in a period, not just the amounts billed through regulated rates during that period. This helps users better understand how costs are recovered, how regulatory arrangements operate, and what future cash flows can be expected. • **Greater transparency of regulatory effects (users and reporting entities):** XRB 2026/62 requires regulatory assets, regulatory liabilities, regulatory income and regulatory expense to be recognised and presented separately in the financial statements. This makes the effects of regulatory timing differences more visible and understandable, allowing users to see how regulation affects both profit and financial position. • **Improved comparability (users and regulators):** By introducing a single accounting model, XRB 2026/62 reduces the diversity that previously existed in accounting for

regulated activities. Investors and other users will be better able to compare entities operating under similar regulatory regimes, compare regulated entities across jurisdictions, and compare results over time. Differences in reported outcomes should more closely reflect economic differences rather than differences in accounting policies

- **Better decision-making and lower information-gathering costs (users and reporting entities):** Users often had to obtain information about regulatory balances from alternative performance measures or regulatory filings. By bringing this information into audited financial statements, XRB 2026/62 should improve investment and lending decisions while reducing the need for users to gather and reconcile information from multiple sources.
- **Potential benefits for preparers (reporting entities):** Reporting entities may benefit from improved communication with investors, greater consistency between finance and regulatory functions, and more transparent and comparable reporting. XRB 2026/62 is also expected to improve digital reporting through more consistent presentation of regulatory information.

Major expected costs (International)

- **Systems and process changes (reporting entities):** The largest implementation costs are expected to arise from modifying or developing systems, processes and internal controls. Entities may need new capabilities to identify timing differences, estimate and discount future cash flows, track the recovery or fulfilment of regulatory balances, and generate the required disclosures. These costs are expected to be highest for entities that do not currently recognise regulatory balances.
- **Internal training and education (reporting entities):** Entities will need to educate finance teams, regulatory specialists, management and other staff about the new requirements and the impact on reported results. Although these costs are expected to reduce over time, the initial learning effort may be significant, particularly where the accounting requirements differ from existing regulatory reporting practices.
- **Communication with external stakeholders (reporting entities):** Entities are expected to incur costs explaining the effects of XRB 2026/62 to investors, analysts, lenders and other stakeholders. Because XRB 2026/62 may alter reported revenue, profit, assets, liabilities and key financial metrics, entities will need to communicate these changes clearly to avoid misinterpretation.
- **Additional audit and compliance costs (reporting entities):** XRB 2026/62 introduces areas requiring judgement, such as assessing enforceable rights and obligations, estimating future cash flows, evaluating risks and determining whether the "direct relationship" criterion is met. These judgements are expected to lead to incremental audit costs and additional compliance effort, especially during initial implementation.
- **Costs for users and other stakeholders (users and assurance practitioners and regulators):** Investors, analysts, regulators and auditors will initially need to spend time understanding the new information, adjusting valuation models and analysing changes from previous reporting practices. However, these initial costs are likely to be temporary and decrease once stakeholders are familiar with this information.

Quantitative Assessment

The IASB has not provided a monetised assessment of the benefits and costs for this standard. The XRB has therefore considered the major expected qualitative benefits and costs, the parties affected, the counterfactual position and the practical constraints on quantification.

A quantified or monetised assessment is not feasible for this standard because the affected entities, systems, judgements and transition costs will vary materially by entity. The XRB has therefore relied on this qualitative assessment, while identifying the affected parties, the main categories of cost and benefit, the likely timing of impacts and the key uncertainties.

This is in line with the Ministry for Regulation guidelines.

Section C – Domestic benefit-cost considerations

In addition to the international considerations around benefits and costs outlined above, benefit and cost considerations in the New Zealand context have also been considered. The major expected benefits and costs within the New Zealand context for XRB 2026/62 are as follows.

Qualitative Assessment

Major expected benefits (Domestic)
• **Improved access to international capital (users and reporting entities):** IFRS Accounting Standards are used in more than 150 jurisdictions and are a recognised global reporting framework. This makes financial statements easier to read in global markets. Alignment with all IFRS requirements would provide investors with information that is consistent with IFRS reporting globally, reducing the need for international investors to adjust the effects of rate regulation. This could improve confidence in NZ financial reporting and potentially reduce information asymmetry for investors, analysts and credit rating agencies, and reduces information risk, improves transparency and decision-making, and may lower the cost of capital. • **Comparability and credibility (users and reporting entities):** Alignment with IFRS Accounting Standards improves comparability across borders and strengthens the credibility of New Zealand reporting. Alignment with IFRS requirements signals that New Zealand reporting meets globally recognised expectations for transparency, discipline and investor protection and would allow New Zealand entities to report the effects of regulatory arrangements on a more comparable basis with overseas peers, supporting investor analysis and benchmarking and better decision-making based on relevant regulatory information. • **Efficiency and effectiveness from using an established international framework (reporting entities and assurance practitioners):** Using IFRS Accounting Standards allows for New Zealand build on the IASB's research, consultation and testing and allow New Zealand entities and assurance practitioners benefit from international guidance and reporting around rate-regulation which is based on IFRS 20. This reduces the need to develop separate local requirements and gives New Zealand access to global expertise on complex reporting issues. • **Better alignment between financial reporting and New Zealand regulatory frameworks (reporting entities and regulators):** New Zealand economic regulators already require significant information regarding regulated assets, allowable returns, wash-ups and price-quality regulation from regulated entities. XRB 2026/62 would bring some of these economic effects into general purpose financial statements, making it easier for users to understand how regulatory decisions affect financial performance and future cash flows. This will reduce duplication and improve consistency in reporting.
Major expected costs (Domestic)
• **Implementation and transition costs (users and reporting entities and assurance practitioners):** Adopting or applying a new international standard creates implementation costs for reporting entities and assurance practitioners (where relevant) to understand the requirements, update accounting policies, amend systems or templates, and train staff. The population of affected entities in New Zealand is relatively small, and as a result, implementation costs may be concentrated among a relatively small number of preparers, auditors and advisers while providing benefits to a narrower user population than in larger economies. • **Auditor and valuation expertise costs (reporting entities and assurance practitioners):** The New Zealand market is relatively small and additional demand for

specialised regulatory expertise may increase implementation and audit costs of XRB 2026/62 because there are fewer local specialists with experience applying rate-regulated accounting models compared with larger jurisdictions.

- **Potential impacts on debt covenants and performance measures (reporting entities and assurance practitioners):** Many New Zealand infrastructure entities use regulatory measures, EBITDA metrics or covenant calculations in financing arrangements. XRB 2026/62 may change reported assets, liabilities, revenue and earnings measures, potentially requiring lenders and entities to revisit covenant definitions and management performance metrics.
- **Local relevance and proportionality (reporting entities):** IFRS Accounting Standards are developed for use across a wide range of jurisdictions and entity types. In some cases, the requirements in XRB 2026/62 may be more extensive than is necessary for some New Zealand regulated entities or may require additional explanation to support consistent application. We consider the benefits of international alignment, as outlined in Section A provides means the requirements remain relevant and proportionate to New Zealand for regulated entities.

Quantitative Assessment

Consistent with the Ministry for Regulation guidelines, we do not consider a quantitative assessment of benefits and costs (including compliance cost estimates, one-off and ongoing cost estimates and sensitivity analysis) to be feasible for this standard. We have relied upon the comprehensive qualitative assessment performed above to support our conclusion.

Section D – Benefit-cost questions and feedback from respondents

The IASB's project on IFRS 20 *Regulatory Assets and Regulatory Liabilities* began in 2008 and has taken a significant amount of time to conclude. In 2021, the IASB issued an Exposure Draft that proposed a comprehensive recognition, measurement, presentation and disclosure model. The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on the Exposure Draft, however three New Zealand stakeholders submitted comment letters.

The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements). The XRB did not receive any further comments from the New Zealand submitters after the Exposure Draft period and as the project progressed by the IASB.

Given the large size but small number of rate-regulated entities in New Zealand, we consider the feedback received on the proposed standard through previous Exposure Drafts and the actions taken by the IASB in response to the feedback to be appropriate and proportionate to ensure that the benefits of XRB 2026/62 are realised and the costs imposed are justified, noting the costs and benefits are borne by different parties.

For both Tier 1 and Tier 2 entities, we consider the benefits of NZ IFRS 20 are expected to outweigh its costs, primarily because it improves the completeness, transparency and comparability of information about rate-regulated activities, leading to better economic decision-making and reduced reliance on information outside the financial statements and allows for international alignment of reporting

around this area. At the same time, XRB 2026/62 also includes several practical expedients, scope clarifications and transition reliefs to reduce implementation costs for entities where appropriate.

Section E – Overall conclusion

We consider the benefits of XRB 2026/62 to outweigh the costs, and our considerations and conclusions are consistent with the requirements of the Regulatory Standards Act 2025.

Consistent with the Ministry for Regulation guidelines, the XRB applies a proportionate approach to evaluating the benefits and costs of XRB 2026/62. Major expected benefits are ongoing and relate to improved decision-useful information being reported to New Zealand users and stakeholders while major expected costs are implementation and on-going costs to comply with requirements, borne primarily by reporting entities.

These expected benefits and costs are in line with expectations, given the role of financial reporting standards to support minimum requirements for general-purpose reporting by entities to users and stakeholders for decision-making purposes.

This analysis and conclusion support the statement in the CAS that we have not identified any inconsistencies in developing this standard with the principles of principles of responsible regulation.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Consequential Amendments arising from NZ IFRS 20**
Date:	1 October 2026
Prepared by:	Nimash Bhikha
Through:	Michelle Lombaard

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

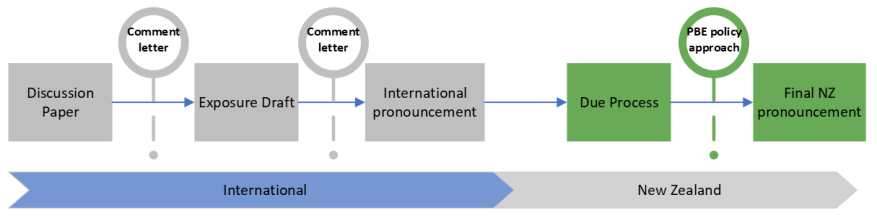
COVER SHEET

Project priority and complexity

Project purpose	**IASB Purpose:** To develop proposals to introduce a requirement for companies to give investors such information by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of financial performance. **NZ Purpose:** To ensure the IASB's requirements are appropriately incorporated into NZ IFRS Standards to support the reporting of regulatory asset and regulatory liability information to users of regulated entities financial statements.
Cost/benefit considerations	**Benefits:** This standard will maintain alignment within international standards and the resulting information would help investors understand which fluctuations in the relationship between a company's revenue and expenses are caused by those differences in timing so that investors could make better assessments of the company's prospects for future cash flows. **Costs:** This standard has complex requirements for rate regulated entities and will result in implementation and on-going costs for these entities, as well as other stakeholders (users, auditors, regulators) who are involved with the reported information of these entities. Further cost and benefit considerations are made within the Consistency Accountability Statement memo.

Project priority	**Low** While the proposed changes within the standard are significant, this is not expected to impact many entities in New Zealand and is not considered a financial reporting priority for New Zealand overall.

Overview of agenda item

Project status	
Board action required	**High complexity** • **APPROVAL** to issue *Consequential Amendments arising from NZ IFRS 20* • **APPROVAL** of the signing memo from the NZASB Chair to the Chair of the External Reporting Board • **APPROVAL** of the Consistency Accountability Statement (CAS) assessment memo

Purpose

1. The purpose of this memo is to seek approval of the domestic equivalent to the IASB new principle standard *IFRS 20 Regulatory Assets and Regulatory Liabilities,* including the consequential amendments to other IFRS Accounting Standards.

Recommendations/ actions

2. We recommend that the Board:

   (a) **APPROVE** for issue the amending standard *Consequential Amendments arising from NZ IFRS 20*; and

   (b) **APPROVE** the signing memorandum from the Chair of the NZASB to the Chair of the External Reporting Board requesting approval to issue *Consequential Amendments arising from NZ IFRS 20*; 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) Changes made to IFRS 20

(d) Consistency with Australian Accounting Standards

(e) Due process

(f) Commencement and application

(g) XRB signing memorandum

(h) Consistency Accountability Statement (CAS) assessment

Background

4. In May 2026, the IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities* which is mandatory for annual periods beginning on or after 1 January 2029. NZ IFRS 20 replaces NZ IFRS 14 *Regulatory Deferral Accounts*, which was a temporary Standard.

5. The new requirements in NZ IFRS 20 interact with other IFRS Standards, including NZ IFRS 15 *Revenue from Contracts with Customers*, but introduces new assets and liabilities unique to rate regulation, rather than continuing deferral approaches.

Summary of the main requirements

6. NZ IFRS 20 results in several consequential amendments to other NZ IFRS Accounting Standards, as outlined in the table below. These amendments align with the consequential amendments made to IFRS Accounting Standards through IFRS 20.

Standard	Amendment	Explanation
NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*	• Paragraphs 31B, D1 and D8B are amended. The subheading before paragraph 31B is also amended. • Paragraphs 31D, 39AL and D37 are added. Subheadings are also added before paragraphs 31D and D37. • Paragraph 39V is deleted.	• Adds provisions for first-time adopters applying NZ IFRS 20, including transition reliefs and disclosure requirements. • Deletes references to NZ IFRS 14 and updated guidance for regulatory assets and liabilities.
NZ IFRS 3 *Business Combinations*	• Paragraph 28C and a heading above that paragraph are added. Paragraph 64S is also added.	• Requires recognition and measurement of regulatory assets and liabilities in business combinations in accordance with NZ IFRS 20.
NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	• Paragraph 5 is amended. • Paragraph 44O is added.	• Clarifies that measurement provisions do not apply to regulatory assets covered by NZ IFRS 20.
NZ IFRS 18 *Presentation and Disclosure in Financial Statements*	• Paragraphs 64, 75 and 103 are amended. • Paragraph C1A is added.	• Amends presentation requirements to include regulatory income, expense, assets, and liabilities. • Adds specific line items for regulatory assets and liabilities in financial statements

Standard	Amendment	Explanation
NZ IAS 8 *Basis of Preparation of Financial Statements*	• Paragraph 54G is deleted. • Paragraph 54K is added. • The footnote to paragraph 11(b) is deleted. • The footnote to paragraph 54G is deleted.	• Removes references to NZ IFRS 14 and updated transition guidance for regulatory balances.
NZ IAS 36 *Impairment of Assets*	• Paragraph 2 is amended. • Paragraph 140O is added.	• Excludes regulatory assets from the scope of impairment testing under NZ IAS 36.
NZ IFRIC 12 *Service Concession Arrangements*	• Below the heading 'References', a reference to IFRS 20 is added. • Paragraphs 9A and 28G are added.	• Clarifies that service concession arrangements may create regulatory assets and liabilities under NZ IFRS 20.
NZ SIC Interpretation 29 *Service Concession Arrangements: Disclosures*	• Below the heading 'References', a reference to IFRS 20 is added. • Paragraph 5 is amended. • An unnumbered paragraph is added after the last paragraph under the heading 'Effective date'.	• Updates references to include NZ IFRS 20. • Clarifies disclosure requirements for regulatory assets and liabilities.

Changes to made from IFRS 20

Changes to terminology and formatting

7. In finalising *Consequential Amendments arising from NZ IFRS 20*, several drafting and implementation refinements were made to improve clarity, support transition and maintain consistency with both the IASB's IFRS 20 and New Zealand legislative drafting requirements.

8. The accompanying consequential amendments package was refined to improve operability and readability. Changes include:

    - Clarifying amendment descriptions so that insertions and deletions affecting principal standards are clearly identified;
    - Retaining the title "*Consequential Amendments arising from NZ IFRS 20*" because the amendments are necessary to maintain coherence across the NZ IFRS suite following the introduction of NZ IFRS 20;
    - Clarifying interactions between transition reliefs in NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* and the transition provisions in NZ IFRS 20;
    - Standardising amendment notation, including how inserted headings and deleted provisions are presented; and
    - Including additional contextual text where it assists users in understanding the location and effect of amendments, while avoiding unnecessary repetition.

Review of changes

9. These changes were discussed and agreed with the XRB's legal drafter and XRB's lawyer as part of finalising *Consequential Amendments arising from NZ IFRS 20*.

10. The IASB has also reviewed the updated standard and do not have any concerns with the proposed publication of NZ IFRS 20 and the associated consequential amendments. The IASB has noted that the changes appear to be limited to jurisdiction-specific drafting and scope considerations, and they have not identified any amendments to the underlying requirements of IFRS 20.

Removal of amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

11. IFRS 20 also includes consequential amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. IFRS 19 is a voluntary IFRS Accounting Standard and has not been adopted into the NZ IFRS Accounting Standards as decided by the Board previously. As such, these consequential amendments have not been incorporated into the NZ amending standard.

Addition of Amendment to XRB A1 Application of the Accounting Standards Framework

12. Appendix B of XRB A1 *Application of the Accounting Standards Framework* lists the accounting standards and authoritative notices that contain the Tier 1 For-profit Accounting Requirements for Tier 1 For-profit entities and the Tier 2 For-profit Accounting Requirements for Tier 2 For-profit entities. The appendix forms an integral part of XRB A1.

13. As such, additional NZ-specific consequential amendments are included in this standard to add NZ IFRS 20 to, and remove NZ IFRS 14 from, the list of Tier 1 and Tier 2 For-profit Accounting Requirements in Appendix B of XRB A1.

Consistency with Australian Accounting Standards

14. We note the AASB will incorporate the relevant consequential amendments from IFRS 20 into the Australian accounting standards (as AASB 20) to maintain alignment with IFRS Accounting Standards.

Due process

15. The XRB published all relevant IASB EDs on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on any of the EDs, however some New Zealand stakeholders did respond directly to the IASB on the 2021 ED, although none of these comments related to the consequential amendments.

IASB re-exposure considerations

16. The IASB has noted throughout their Basis for Conclusion on IFRS 20 three core reasons for why re-exposure of the requirements was not considered necessary:

    (a) **Stakeholder feedback showed broad support and no fundamental changes were made** – The IASB did not re-expose the proposals because feedback showed strong support for the Exposure Draft's core principle that entities should recognise the total allowed compensation in the same reporting period (BC9). Respondents agreed with the definitions, scope and overall model (BC11–BC14), and clarifications made

after consultation simply made the requirements clearer (BC41). Since the fundamental approach remained intact, further consultation was unnecessary.

(b) **Changes made after the Exposure Draft were responsive clarifications, not conceptual reversals** – The IASB concluded that re-exposure was not required because post-Exposure Draft changes were limited to clarifications—such as enforceability (BC35–BC37), regulatory returns (BC67–BC79), and discounting simplifications (BC214–BC222)—rather than conceptual changes. For example, the minimum interest rate proposal was removed because the costs would outweigh the benefits (BC222). These refinements did not alter the underlying model, so re-consultation was not considered necessary.

(c) **The IASB judged that re-exposure would not provide new information** – The IASB judged that re-exposure would not provide new insights because the final requirements remained consistent with the cash-flow-based measurement approach (BC170) and use of the regulatory interest rate (BC207). The IASB noted that regulatory cash flows are generally stable and predictable (BC128), and no changes were made that would reasonably change stakeholder views and so re-consultation was not warranted.

17. 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. This review of due process occurred at the IASB's July 2024 meeting, and all 14 IASB members (at the time) agreed with this decision.

18. The Due Process Oversight Committee (DPOC) also considered the due process lifecycle review of this project in June 2025, covering the entire development of the rate regulated activities project, and confirmed that all due process requirements had been met. The DPOC, in July 2025, considered stakeholder concerns about non re-exposure of the standard), but continued to treat the project as having completed its due-process steps.

19. Based on the IASB's conclusions, the independent review performed by the DPOC and the rationale for the IASB's decisions being explained publicly within their Basis for Conclusions, we consider the IASB's due process to be reasonable. Given the XRB's financial reporting strategy to align with IFRS requirements and as this has been issued by the IASB as a final IFRS Accounting Standard, the NZASB do not consider it appropriate to perform any further consultations on these requirements prior to issuing the NZ IFRS Accounting Standard.

Due process conclusion

20. The due process followed by the NZASB complied with the due process requirements established by the XRB Board but following international processes where applicable and, in our view, meets the requirements of section 22 of the Financial Reporting Act 2013.

21. 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

22. 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.

23. We have considered whether any modifications are needed to ensure consistency with the abovementioned legislative restrictions.

Mandatory date

24. *Consequential amendments to NZ IFRS Accounting Standards due to NZ IFRS 20* will be applicable to New Zealand for-profit entities for annual reporting **periods beginning on or after 1 January 2029** – 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).

25. This is consistent with the effective date established by the IASB, to the extent permitted under section 28 of the Financial Reporting Act 2013.

26. Modifications have been made to the commencement data paragraphs within the standard to ensure these comply with the Parliamentary Counsel Office's best practice guidelines around the commencement dates, and the above requirements.

Early Adoption consideration

27. The amendments within *Consequential amendments to NZ IFRS Accounting Standards due to NZ IFRS 20* should only be applied by entities that also apply NZ IFRS 20 at the same time.

28. As such early adoption wording has been modified to ensure that this is adopted by entities who apply both NZ IFRS 20 and the consequential amendments at the same time.

XRB signing memorandum

29. 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.

30. 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 *Consequential Amendments arising from NZ IFRS 20* should be signed by the Chair of the NZASB.

Questions for Board:

Q1. Does the Board **APPROVE** for issue *Consequential Amendments arising from NZ IFRS 20* (subject to the approval of the Chair of the External Reporting Board of the standard and subject to the approval of the Chief Executive of the XRB of the Consistency Accountability Statement)?

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?

Q3. Does the Board **APPROVE** the benefit and cost analysis within the Appendix to the Consistency Accountability Statement assessment memorandum?

Consistency Accountability Statement (CAS) assessment

31. 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.

32. 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.

33. 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).

34. We have assessed *Consequential amendments to NZ IFRS Accounting Standards due to NZ IFRS 20*, 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.

Questions for Board:

Q4. Does the Board **AGREE** with the Consistency Accountability Statement assessment memorandum, which will be used to support the Chief Executive's assertion in the CAS that:

- The External Reporting Board has assessed this standard, 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, and
- This assessment identified no inconsistencies with the principles of responsible regulation?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

XRB 2026/63

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 29 October 2026 and takes effect on 26 November 2026. There is an explanatory note at the end of this standard that includes an explanation of how and from when this standard operates

Consequential Amendments to NZ IFRS arising from NZ IFRS 20

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 **2**

Commencement **2**

Principal standards **2**

How amendments made **2**

Application **2**

Amendments to NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards* **3**

Amendments NZ IFRS 3 *Business Combinations* **5**

Amendments to NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* **5**

Amendments NZ IFRS 18 *Presentation and Disclosure in Financial Statements* **6**

Amendments NZ IAS 8 *Basis of Preparation of Financial Statements* **8**

Amendments NZ IAS 36 *Impairment of Assets* **9**

Amendments NZ IFRIC 12 *Service Concession Arrangements* **10**

Amendments NZ SIC 29 *Service Concession Arrangements: Disclosures* **11**

Amendments XRB A1 *Application of the Accounting Standards Framework* **12**

Title

0.1 This Standard is the *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*.

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 standards

0.3 This Standard amends the following principal standards:

New Zealand International Financial Reporting Standard 1 *First-time Adoption of International Financial Reporting Standards* (**NZ IFRS 1**)

New Zealand International Financial Reporting Standard 3 *Business Combinations* (**NZ IFRS 3**)

New Zealand International Financial Reporting Standard 5 *Non-current Assets Held for Sale and Discontinued Operations* (**NZ IFRS 5**)

New Zealand International Financial Reporting Standard 18 *Presentation and Disclosure in Financial Statements* (**NZ IFRS 18**)

New Zealand International Accounting Standard 8 *Basis of Preparation of Financial Statements* (**NZ IAS 8**)

New Zealand International Accounting Standard 36 *Impairment of Assets* (**NZ IAS 36**

New Zealand Equivalent to IFRIC Interpretation 12 *Service Concession Arrangements* (**NZ IFRIC 12**)

New Zealand Equivalent to SIC Interpretation 29 *Service Concession Arrangements: Disclosures* (**NZ SIC-29**)

External Reporting Board Standard A1 *Application of the Accounting Standards Framework* (**XRB A1**).

How amendments are made

0.4 In this Standard, text in the relevant 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 <u>underlined</u> 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 standards.

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 **1 January 2029**.

0.6 In paragraph 0.5:

early adopter means a reporting entity that is an early adopter under *New Zealand International Financial Reporting Standard 20 Regulatory Assets and Regulatory Liabilities*

early adoption accounting period means an accounting period that is an early adoption accounting period under *New Zealand International Financial Reporting Standard 20 Regulatory Assets and Regulatory Liabilities*.

Amendments to NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*

Paragraph 31B and heading amended

Use of deemed cost by first-time adopters applying NZ IFRS 20 ~~for operations subject to rate regulation~~

31B If an entity uses the exemption in paragraph D8B ~~for operations subject to rate regulation~~, it shall disclose that fact and the basis on which carrying amounts were determined under previous GAAP.

Paragraph 31D and heading added

Use of transition reliefs in NZ IFRS 20 for regulatory assets and regulatory liabilities

31D If an entity uses the transition reliefs specified in paragraph D37 of this standard for regulatory assets and regulatory liabilities, it shall disclose which reliefs it has applied and, if appropriate, describe how it has applied them.

Paragraph 39V content deleted

39V [Deleted] ~~NZ IFRS 14 *Regulatory Deferral Accounts*, issued in March 2014, amended paragraph D8B. An entity shall apply that amendment for annual periods beginning on or after 1 January 2016. Earlier application is permitted. If an entity applies NZ IFRS 14 for an earlier period, the amendment shall be applied for that earlier period.~~

Paragraph 39AL added

39AL *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, amended paragraph 31B and its related heading, and paragraphs D1 and D8B, added paragraphs 31D and D37 and headings, and deleted paragraph 39V. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Paragraph D1(u) to (w) amended

D1

(u) revenue (paragraphs D34 and D35); ~~and~~

(v) foreign currency transactions and advance consideration (paragraph D36); and~~.~~

(w) regulatory assets and regulatory liabilities (paragraph D37).

Paragraph D8B amended

D8B Some first-time adopters applying NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities* ~~entities~~ hold items of property, plant and equipment, right-of-use assets or intangible assets whose carrying amounts ~~that are used, or were previously used, in operations subject to rate regulation. The carrying amount of such items~~ might include amounts that were determined under previous GAAP but do not qualify for capitalisation in accordance with NZ IFRS. If this is the case, a first-time adopter may elect to use the previous GAAP carrying amount of such an item at the date of transition to NZ IFRS as deemed cost. If an entity applies this exemption to an item, it need not apply it to all items. At the date of transition to NZ IFRS, an entity shall test for impairment in accordance with NZ IAS 36 each item for which this exemption is used. ~~For the purposes of this paragraph, operations are subject to rate regulation if they are governed by a framework for establishing the prices that can be charged to customers for goods and services and that framework is subject to oversight and/or approval by a rate regulator (as defined in NZ IFRS 14 *Regulatory Deferral Accounts*).~~

Paragraph D37 and heading added

Regulatory assets and regulatory liabilities

D37 A first-time adopter may apply the transition reliefs set out in paragraphs C10–C12 in Schedule 1 of NZ IFRS 20. If an entity elects to apply those transition reliefs:

(a) it shall read the references to the transition date in paragraphs C10–C12 of that schedule as the date of transition to NZ IFRSs; and

(b) it shall not apply the transition relief in paragraph C10 of that schedule to assets that are not yet available for use at the date of transition to NZ IFRSs if it has applied the exemption in paragraph D8B of this standard to those assets.

Amendments to NZ IFRS 3 *Business Combinations*

Paragraph 28C and heading added

Regulatory assets and regulatory liabilities

28C The acquirer shall recognise and measure all regulatory assets acquired and regulatory liabilities assumed in a business combination in accordance with NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

Paragraph 64S added

64S *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, added paragraph 28C and a heading. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraph 5 amended

5

(g) regulatory assets (NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*).

Paragraph 44O added

44O *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, amended paragraph 5. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to NZ IFRS 18 *Presentation and Disclosure in Financial Statements*

Paragraph 64 amended

64 An entity shall exclude from the financing category and classify in the operating category:

(a) income and expenses from issued investment contracts with participation features recognised applying NZ IFRS 9 *Financial Instruments* (see paragraph B58); ~~and~~

(b) insurance finance income and expenses included in the statement of profit or loss applying NZ IFRS 17 *Insurance Contracts*; and~~.~~

(c) regulatory interest income or regulatory interest expense included in the statement of profit or loss applying NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

Paragraph 75 amended

75 An entity shall present in the statement of profit or loss line items for (see paragraph B77):

(a) amounts required by this Standard, namely:

(i) revenue, presenting separately the line items described in (b)(i), ~~and~~ (c)(i) and (d);

(ii) operating expenses, presenting separately line items as required by paragraphs 78 and 82(a);

(iii) share of the profit or loss of associates and joint ventures accounted for using the equity method;

(iv) income tax expense or income; and

(v) a single amount for the total of discontinued operations (see NZ IFRS 5);

(b) amounts required by NZ IFRS 9, namely:

(i) interest revenue calculated using the effective interest method;

(ii) impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of NZ IFRS 9;

(iii) gains and losses arising from the derecognition of financial assets measured at amortised cost;

(iv) any gain or loss arising from the difference between the fair value of a financial asset and its previous amortised cost at the date of reclassification from amortised cost measurement to measurement at fair value through profit or loss; and

(v) any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss at the date of reclassification of a financial asset from measurement at fair value through other comprehensive income to measurement at fair value through profit or loss; ~~and~~

(c) amounts required by NZ IFRS 17, namely:

(i) insurance revenue;

(ii) insurance service expenses from contracts issued within the scope of NZ IFRS 17;

(iii) income or expenses from reinsurance contracts held;

(iv) insurance finance income or expenses from contracts issued within the scope of NZ IFRS 17; and

(v) finance income or expenses from reinsurance contracts held; and~~.~~

(d) amounts required by NZ IFRS 20, namely all regulatory income minus all regulatory expense.

Paragraph 103 amended

103 **An entity shall present in the statement of financial position line items for:**

(a) property, plant and equipment;

(b) investment property;

(c) intangible assets;

(d) goodwill;

(e) financial assets (excluding amounts shown under (g), (j) and (k));

(ea) regulatory assets as defined in NZ IFRS 20;

(f) portfolios of contracts within the scope of NZ IFRS 17 that are assets, disaggregated as required by paragraph 78 of NZ IFRS 17;

(g) investments accounted for using the equity method;

(h) biological assets within the scope of NZ IAS 41 Agriculture;

(i) inventories;

(j) trade and other receivables;

(k) cash and cash equivalents;

(l) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with NZ IFRS 5;

(m) trade and other payables;

(n) provisions;

(o) financial liabilities (excluding amounts shown under (m) and (n));

(oa) regulatory liabilities as defined in NZ IFRS 20;

(p) portfolios of contracts within the scope of NZ IFRS 17 that are liabilities, disaggregated as required by paragraph 78 of NZ IFRS 17;

(q) liabilities and assets for current tax, as defined in NZ IAS 12;

(r) deferred tax liabilities and deferred tax assets, as defined in NZ IAS 12; and

(s) liabilities included in disposal groups classified as held for sale in accordance with NZ IFRS 5.

Paragraph C1A in Appendix C added

C1A *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, amended paragraphs 64, 75 and 103. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to NZ IAS 8 *Basis of Preparation of Financial Statements*

Paragraph 54G content deleted

54G [Deleted] ~~If an entity does not apply NZ IFRS 14 *Regulatory Deferral Accounts*, the entity shall, in applying paragraph 11(b) to regulatory account balances, continue to refer to, and consider the applicability of, the definitions, recognition criteria, and measurement concepts in the New Zealand Equivalent to the *IASB Conceptual Framework for Financial Reporting 2010 (NZ Framework)* instead of those in the *2018 NZ Conceptual Framework*. A regulatory account balance is the balance of any expense (or income) account that is not recognised as an asset or a liability in accordance with other applicable NZ IFRSs but is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers. A rate regulator is an authorised body that is empowered by statute or regulation to establish the rate or a range of rates that bind an entity. The rate regulator may be a third-party body or a related party of the entity, including the entity's own governing board, if that body is required by statute or regulation to set rates both in the interest of the customers and to ensure the overall financial viability of the entity.~~

Paragraph 54K added

54K *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, deleted a footnote to paragraph 11(b) and paragraph 54G. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Footnote to paragraph 11(b) deleted

~~Paragraph 54G explains how this requirement is amended for regulatory account balances.~~

Amendments to NZ IAS 36 *Impairment of Assets*

Paragraph 2(h) to (j) amended

2

(h) contracts within the scope of NZ IFRS 17 *Insurance Contracts* that are assets and any assets for insurance acquisition cash flows as defined in NZ IFRS 17; ~~and~~

(i) non-current assets (or disposal groups) classified as held for sale in accordance with NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and~~.~~

(j) regulatory assets (see NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*).

Paragraph 3 amended

3 This Standard does not apply to inventories, assets arising from construction contracts, deferred tax assets, assets arising from employee benefits, ~~or~~ assets classified as held for sale (or included in a disposal group that is classified as held for sale), or regulatory assets because existing NZ IFRSs applicable to these assets contain requirements for recognising and measuring these assets.

Paragraph 140O added

140O *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, amended paragraphs 2 and 3. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to NZ IFRIC 12 *Service Concession Arrangements*

Reference to NZ IFRS 20 added

References

- NZ IFRS 16 *Leases*
- NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*
- NZ IAS 8 *Basis of Preparation of Financial Statements*

Paragraph 9A added

9A A public-to-private service concession arrangement that is within the scope of this Interpretation may create regulatory assets and regulatory liabilities within the scope of NZ IFRS 20. An operator shall apply this Interpretation and other NZ IFRS Accounting Standards to account for rights and obligations arising from such arrangements before applying NZ IFRS 20 to any remaining rights and obligations that meet the definition of a regulatory asset or a regulatory liability.

Paragraph 28G added

28G *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*, issued in October 2026, amended the 'References' section and added paragraph 9A. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to NZ SIC-29 *Service Concession Arrangements: Disclosures*

Reference to NZ IFRS 20 added

References

- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*
- NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*
- NZ IAS 16 *Property, Plant and Equipment* (as revised in 2003)

Paragraph 5 amended

5 Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing NZ IFRSs (eg NZ IAS 16 applies to acquisitions of items of property, plant and equipment, NZ IFRS 16 applies to leases of assets, NZ IFRS 20 applies to regulatory assets and regulatory liabilities, and NZ IAS 38 applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in NZ IFRS, unless the contracts are onerous, in which case NZ IAS 37 applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

Unnumbered paragraph added after the last paragraph under the heading 'Effective date'

Consequential Amendments to NZ IFRS arising from NZ IFRS 20, issued in October 2026, amended the 'References' section and paragraph 5. An entity shall apply *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* when it applies NZ IFRS 20.

Amendments to XRB A1 *Application of the Accounting Standards Framework*

Appendix B Tier 1 For-profit Accounting Requirements and Tier 2 For-profit Accounting Requirements to be applied by for-profit entities amended

NZ IFRS 13	*Fair Value Measurement*
~~NZ IFRS 14~~	~~*Regulatory Deferral Accounts*~~
NZ IFRS 15	*Revenue from Contracts with Customers*
NZ IFRS 16	*Leases*
NZ IFRS 17	*Insurance Contracts*
NZ IFRS 18	*Presentation and Disclosure in Financial Statements*
NZ IFRS 20	*Regulatory Assets and Regulatory Liabilities*
NZ IAS 2	*Inventories*

Issued at Wellington on 20 October 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 *Consequential Amendments to NZ IFRS arising from NZ IFRS 20.*

These are amendments to certain principal standards to reflect the issuance of NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities*, namely:

- NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards*;
- NZ IFRS 3 *Business Combinations*;
- NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- NZ IFRS 18 *Presentation and Disclosure in Financial Statements*;
- NZ IAS 8 *Basis of Preparation of Financial Statements*;
- NZ IAS 36 *Impairment of Assets*;
- NZ IFRIC 12 *Service Concession Arrangements*;
- NZ SIC 29 *Service Concession Arrangements: Disclosures;* and
- XRB A1 *Application of the Accounting Standards Framework*).

The Standard applies to the accounting periods in relation to which NZ IFRS 20 applies (including for early adopters).

The Standard should be read in the context of NZ IFRS 20, its objective and the IASB's Basis for Conclusions on IFRS 20 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*. NZ IAS 8 *Basis for Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

The paragraph numbering within this standard refers to the paragraph numbering of the relevant principal standard as issued. The footnote numbering within this standard may be adjusted consecutively rather than referring to the footnote numbering of the principal standards as issued. Accordingly, some paragraph and footnote numbering may not align with the compilation of the standards as published from time to time by the XRB on its website.

The Standard was issued by the New Zealand Accounting Standards Board acting under delegated authority of the External Reporting Board.

Compliance with IFRS 20

NZ IFRS 20 Regulatory Assets and Regulatory Liabilities and *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* together incorporates the equivalent IFRS® Standard as issued by the International Accounting Standards Board (IASB).

Tier 1 for-profit entities that comply with *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* and *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* will simultaneously be in compliance with IFRS 20 *Regulatory Assets and Regulatory Liabilities*.

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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 20 October 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	Consequential Amendments to NZ IFRS arising from NZ IFRS 20
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	20 October 2026
Publication date	29 October 2026
Notification date	29 October 2026
Commencement date	26 November 2026
End date	
Consolidation as at date	
Related instruments (unofficial XRB consolidation)	NZ IFRS 1 *First-time Adoption of International Financial Reporting Standards* NZ IFRS 3 *Business Combinations* NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* NZ IFRS 18 *Presentation and Disclosure in Financial Statements* NZ IAS 8 *Basis of Preparation of Financial Statements* NZ IAS 36 *Impairment of Assets* NZ IFRIC 12 *Service Concession Arrangements* NZ SIC-29 *Service Concession Arrangements: Disclosures* XRB A1 *Application of the Accounting Standards Framework*

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	John Kensington, Chair External Reporting Board
From:	Carolyn Cordery, Chair NZASB
Copy to:	Wendy Venter, Chief Executive External Reporting Board
Subject:	**Certificate Signing Memorandum – Consequential Amendments to NZ IFRS arising from NZ IFRS 20**
Date:	October 2026

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

Action requested

1. The NZASB seeks your approval to issue *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* (the standard).

Recommendation

2. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.
3. Please notify the Chief Executive, copy myself, once you have signed the certificate of determination.

The milestones in the development of the standard

International process

4. The International Accounting Standards Board's (IASB's)[1] project began in 2008 and has taken a significant amount of time to conclude. Key steps in the IASB's project included:
   (a) **2008-2009:** The IASB first added rate-regulated activities as an active project, responding to diversity in practice and calls for guidance. A first Exposure Draft was published in 2009 focussed on a cost-of-service form of rate regulation. Following mixed and strongly divergent feedback, the IASB decided not to proceed with the 2009 proposals.
   (b) **2013:** The IASB decided to restart the project with a broader research focus, rather than jumping to accounting proposals. A request for information was issued in March 2013 with the objective to gather information on types of rate-regulatory schemes worldwide to help define the scope of any requirements and whether defined rate regulation creates distinctive rights and obligations.

[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).

(c) **2014:** The IASB issued IFRS 14 *Regulatory Deferral Accounts* as temporary relief for first-time adopters of IFRS to continue using local GAAP deferral accounting. This standard was explicitly linked to the expectation of a future comprehensive Standard.

(d) **2015-2020:** The IASB considered the feedback received and deliberated on project direction and model fundamentals. IASB analysed feedback received and gradually focused on recognising regulatory assets and regulatory liabilities arising from timing differences. The IASB also decided to narrow the model to a defined type of rate regulation.

(e) **2021:** The IASB issued a comprehensive Exposure Draft that proposed a comprehensive recognition, measurement, presentation and disclosure model and was intended to replace IFRS 14. The NZASB did not comment on the Exposure Draft, however three New Zealand stakeholders (Transpower NZ, Wellington Electricity Lines Limited, and CA ANZ/CPA Australia) submitted comment letters.

(f) **2022–2024:** The IASB considered the feedback received on the Exposure Draft and redeliberations proposals and made various decisions on the scope and defining features of rate regulation, recognition conditions (including direct relationship with assets), measurement (future cash flows, discounting) and presentation and disclosures of new balances. In July 2024, the IASB confirmed that due process had been satisfied and authorised the project to move to balloting of the final Standard.

(g) **2025:** The IASB reconsidered the sweep issues rising from the drafting of the standard, following concerns raised by some stakeholders. The IASB agreed to the removal of a minimum interest rate requirement, refinements to disclosure and transition requirements and clarifications on discounting and assumptions. The IASB also made decisions on inflation adjustments to regulatory capital bases, clarification of the direct relationship notion and other final drafting refinements ahead of issuance.

(h) **2026:** The IASB issued IFRS 20 *Regulatory Assets and Regulatory Liabilities* in May 2026 which is mandatory for annual periods beginning on or after 1 January 2029.

5. Following its consideration of comments from constituents, the IASB reviewed the due process steps that it had taken since the publication of the Exposure Draft and concluded that the applicable due process steps had been completed. This review of due process occurred at the IASB's July 2024 meeting, and all 14 IASB members (at the time) agreed with this decision.

6. The IASB has noted throughout their Basis for Conclusion on IFRS 20 three core reasons for why re-exposure of the requirements was not considered necessary:

   (a) **Stakeholder feedback showed broad support and no fundamental changes were made** – The IASB did not re-expose the proposals because feedback showed strong support for the Exposure Draft's core principle that entities should recognise the total allowed compensation in the same reporting period (BC9). Respondents agreed with the definitions, scope and overall model (BC11–BC14), and clarifications made after consultation simply made the requirements clearer (BC41). Since the fundamental approach remained intact, further consultation was unnecessary.

(b) **Changes made after the Exposure Draft were responsive clarifications, not conceptual reversals** – The IASB concluded that re-exposure was not required because post-Exposure Draft changes were limited to clarifications—such as enforceability (BC35–BC37), regulatory returns (BC67–BC79), and discounting simplifications (BC214–BC222)—rather than conceptual changes. For example, the minimum interest rate proposal was removed because the costs would outweigh the benefits (BC222). These refinements did not alter the underlying model, so re-consultation was not considered necessary.

(c) **The IASB judged that re-exposure would not provide new information** – The IASB judged that re-exposure would not provide new insights because the final requirements remained consistent with the cash-flow-based measurement approach (BC170) and use of the regulatory interest rate (BC207). The IASB noted that regulatory cash flows are generally stable and predictable (BC128), and no changes were made that would reasonably change stakeholder views and so re-consultation was not warranted.

7. The Due Process Oversight Committee (DPOC) also considered the due process lifecycle review of this project in June 2025, covering the entire development of the rate regulated activities project, and confirmed that all due process requirements had been met. The DPOC, in July 2025, considered stakeholder concerns about non re-exposure of the standard, but continued to treat the project as having completed its due-process steps.

8. Rate regulation is a form of regulation that sets the regulated rates (sometimes called the prices or tariffs) that entities can charge customers for goods or services. IFRS 20 *Regulatory Assets and Regulatory Liabilities*, applies to all entities that are subject to a specific type of rate regulation—that is, rate regulation that creates differences in timing. Differences in timing arise when part or all of the compensation for regulatory goods or services supplied in one reporting period is included in the regulated rates charged to customers in a different period.

9. If such differences in timing arise and are not accounted for, an entity's statement of profit or loss for a reporting period provides incomplete information about the compensation an entity is entitled to for regulatory goods or services that it supplies in the period.

10. IFRS 20 will improve the quality of financial reporting by requiring entities to account for the effects of differences in timing through the recognition of regulatory assets and regulatory liabilities and related regulatory income and regulatory expense.

11. IFRS 20 is expected to reduce diversity in accounting practices and give investors a better understanding of:

- The compensation an entity is entitled to for regulatory goods or services supplied in a reporting period, which will provide insights into the entity's financial performance and prospects for future cash flows; and
- An entity's regulatory assets and regulatory liabilities, which will provide insights into the entity's financial position at the reporting date and the amount, timing and uncertainty of its future cash flows.

12. IFRS 20 results in several consequential amendments to other IFRS Accounting Standards, which have been included within a separate amending standard.

Consequential amendments are minor amendments made directly because of the issuance of another standard, to ensure existing requirements are updated and coherent with the newly issued standard. The amendments ensure the new standard integrates into the existing requirements in the following IFRS Accounting Standards and not considered to be individually significant:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 18 *Presentation and Disclosure in Financial Statements*
- IAS 8 *Basis of Preparation of Financial Statements*
- IAS 36 *Impairment of Assets*
- IFRIC 12 *Service Concession Arrangements*
- SIC Interpretation 29 *Service Concession Arrangements: Disclosures*

13. The IASB standard was approved with affirmative votes of 12 out of 13 IASB members in July 2024. One IASB member abstained in view of their recent appointment to the IASB. 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.

14. The IASB issued *IFRS 20 Regulatory Assets and Regulatory Liabilities* in May 2026, which is mandatory for annual periods beginning on or after 1 January 2029.

Domestic process, including a summary of the major issues raised by stakeholders and the conclusions reached

15. Given the limited impact of rate regulation in New Zealand, the NZASB did not actively hold any consultation activities in 2021 while the IASB's ED consultation period was open. The NZASB did not comment on the Exposure Draft and the NZASB did not receive any comment letters from New Zealand constituents during the consultation period. However, three New Zealand stakeholders (Transpower NZ, Wellington Electricity Lines Limited, and CA ANZ/CPA Australia) submitted comment letters.

16. The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements).

17. Since 2024, the Chair of the NZASB also participated in the Accounting Standard Advisory Forum (ASAF) which discussed developments in the proposed requirements, where she communicated New Zealand feedback on the proposals directly to the IASB. New Zealand stakeholder views on the impact of these requirements on New Zealand entities were gathered from the Accounting Technical Reference Group (TRG) throughout 2024 to 2026.

18. Based on the IASB's conclusions, the independent review performed by the DPOC and the rationale for the IASB's decisions being explained publicly within their Basis for

Conclusions, we consider the IASB's due process to be reasonable. Given the XRB's financial reporting strategy to align with IFRS requirements and as this has been issued by the IASB as a final IFRS Accounting Standard, the NZASB do not consider it appropriate to perform any further consultations on these requirements prior to issuing the NZ IFRS Accounting Standard.

19. In October 2026, the NZASB agreed to issue *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities* subject to your agreement to sign the attached Certificate Signing Memorandum. The standard was approved with affirmative votes of 9 out of 9 NZASB members.

20. The standard is identical to the consequential amendments included in *IFRS 20 Regulatory Assets and Regulatory Liabilities* standard issued by the IASB, which ensures international harmonisation with full IFRS Accounting Standards.

21. The only local modifications made to the standard are:

    (a) A New Zealand specific introduction, formatting, numbering and explanatory note (including a minimum legislative information table) to comply with the Parliamentary Counsel Office's (PCO's) best practice guidelines around drafting secondary legislation;

    (b) New Zealand specific wording for the commencement and application of the standard and other minor changes to align with best practice legislative guidelines in New Zealand;

    (c) The removal of amendments to IFRS 19 *Subsidiaries without Public Accountability*, noting that there is currently no New Zealand equivalent due to previous decisions made by the NZASB; and

    (d) New Zealand specific amendments to XRB A1 *Application of the Accounting Standards Framework* to incorporate NZ IFRS 20 into the Accounting Standards Framework for Tier 1 and Tier 2 for-profit entities.

Compliance with due process requirements

22. The XRB published all IASB ED's on the XRB website when it was issued and notified New Zealand stakeholders of these proposals. The due process followed by the NZASB followed international processes where applicable.

23. We consider that the process followed by the NZASB complied with the due process requirements established by the XRB Board, including the consultation requirements of section 22 of the Financial Reporting Act 2013.

An explanation of how the standard is consistent with the XRB Board's financial reporting strategy

24. The adoption of the standard is consistent with all three elements of the XRB Board's Financial Reporting Strategy: it adopts the international standard, retains a harmonised position with Australia for Tier 1 for-profit entities and is consistent with the current Accounting Standards Framework.

25. This standard does not introduce new disclosure requirements As such, we do not plan to consult and seek feedback on any proposed Tier 2 disclosure requirements.

Review of the standard as required by the Regulatory Standards Act 2025 (RS Act)

The standard has been reviewed as required by the RS Act

26. The standard and the process for developing it has been reviewed and assessed in accordance with the RS Act, including as to consistency with the principles of responsible regulation set out in under that Act.

27. For the purposes of the RS Act, no inconsistencies have been identified.

28. Full details of the review and assessment are set out in the Regulatory Standards Act Assessment document for this standard.

Benefits and costs have been considered in line with the RS Act

29. The review and assessment included a review of the benefits and costs of the standard as provided for by the RS Act.

30. For the purposes of the RS Act, it is considered that the benefits exceed the costs.

Consistency Accountability Statement

31. We have sent a memorandum to the Chief Executive recommending that the Chief Executive signs the consistency accountability statement as required by the RS Act on the basis of the review and assessment referred to in paragraphs 30-34 above.

32. The Chief Executive will confirm by email when she is ready to make the consistency accountability statement.

Whether it was necessary to consult with the Privacy Commissioner under section 22(2) of the Financial Reporting Act 2013, and if so, the outcome of that consultation.

33. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information.

34. No such consultation is required in relation to this standard.

We considered the Australian developments and harmonisation

35. External Reporting Australia (ERA) is expected to approve a standard based on *IFRS 20 Regulatory Assets and Regulatory Liabilities* soon as AASB 20 *Regulatory Assets and Regulatory Liabilities* (which will include the relevant consequential amendments). This will maintain alignment with NZ IFRS with AASB and IFRS requirements.

36. In 2020 the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New

Zealand's Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia.

37. ERA now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis. ERA is expected to consider the effect of *IFRS 20 Regulatory Assets and Regulatory Liabilities* on AASB 1060 at a later date.

38. This will maintain alignment with NZ IFRS with Australian and IFRS requirements for Tier 1 entities.

Any other matters the technical board considers should be drawn to the attention of the XRB Chair or the designated alternate

39. There are no other matters relating to the issue of this standard that the NZASB considers to be pertinent or that should be drawn to your attention.

Attachments

- *Consequential Amendments to NZ IFRS arising from NZ IFRS 20*
- Certificate of determination
- Consistency Accountability Statement Assessment File Note

Dr Carolyn Cordery
Chair NZASB

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Assessment for Consistency Accountability Statement

Reference number	XRB 2026/63
Subject	**Regulatory Standards Act assessment to support Consistency Accountability Statement**
Related to	***Consequential Amendments to NZ IFRS arising from NZ IFRS 20***
Date of technical board discussion of this assessment	12 October 2026
Approval Date	20 October 2026

Guidance and instructions

- *This template includes italicised guidance and instructions in green to explain the statutory guidance available to help to complete a Regulatory Standards Act (**RS Act**) Assessment that underpins a Consistency Accountability Statement.*
- *The green italicised content, such as this textbox, should be retained in the RS Act Assessment that is submitted to the board (**the Approving Board**) being asked to approve a new or amendment standard or authoritative notice.*
- *None of the green italicised content should be included in the final version of the RS Act Assessment.*

Purpose

1. Section 3(1) of the Regulatory Standards Act 2025 (**RS Act**), insofar as it relates to secondary legislation states that the purposes of the RS Act are to:

   (a) promote the accountability of the Executive to Parliament for the development of high-quality legislation

   (b) support Parliament in overseeing and controlling the use of delegated powers to make legislation.

2. The RS Act also:

   (a) lists principles of responsible regulation (**the principles**)

   (b) requires agencies responsible for making secondary legislation to publish:

      i. a Consistency Accountability Statement (**CAS**) confirming that the agency has reviewed the legislation and the process for developing it for consistency with the principles and summarising any identified inconsistency

      ii. a statement that briefly explains the reasons for any inconsistency.

3. This RS Act assessment documents the analysis and processes that underpin the CAS for *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* (**XRB 2026/63**).

4. XRB 2026/23 makes consequential amendments to existing NZ IFRS standards to incorporate the issuance of NZ IFRS 20. Consequential amendments are minor amendments made directly because of the issuance of another standard, to ensure existing requirements are updated and

coherent with the newly issued standard. The amendments ensure the new standard integrates into the existing NZ IFRS requirements and are not considered to be individually significant

Summary of this RS Act Assessment

5. The Chief Executive, the responsible Director and the Director's staff have assessed *Consequential Amendments to NZ IFRS arising from NZ IFRS 20* (**XRB 2026/63**) and the process for developing it for consistency with the principles.

6. We have not identified any inconsistencies.

7. The Chair of the NZASB, has reviewed this RS Act Assessment and agrees with the conclusions, as part of recommending to the XRB Board that XRB 2026/63 is issued. The NZASB's review is done for the purposes of providing advice to the Chief Executive, so that she can form an independent assessment of whether XRB 2026/63, and the process for developing it, have any inconsistencies with the principles.

The scope of XRB's statutory powers

8. The XRB makes the following secondary legislation under sections 12 and 20 of the Financial Reporting Act 2013 (**FR Act**):

   (a) Financial reporting standards and authoritative notices that govern the content of general purpose financial statements.

   (b) Climate standards and authoritative notices that govern the content of climate statements prepared under Part 7A of the Financial Markets Conduct Act 2013 (**the FMC Act**).

   (c) Auditing and assurance standards, related service standards, and professional and ethical standards that contribute to the system for regulating assurance practitioners.

The context for this RS Act Assessment

9. Many enactments require for-profit entities to prepare and publish financial statements in accordance with generally accepted accounting practice (**GAAP**). Section 8 of the FR Act states that financial statements comply with GAAP only if they comply with:

   (a) applicable financial reporting standards

   (b) in relation to matters for which no provision is made in applicable financial reporting standards, an authoritative notice.

10. The objective of general purpose financial reporting by for-profit entities is to provide financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

11. XRB 2026/63 is not stand-alone regulation. It adds to the suite of financial reporting standards that apply to Tier 1 and Tier 2 for-profit entities. The purpose of XRB 2026/63 is to improve the overall quality of the suite of financial reporting standards that apply to this class of reporting entity. Therefore, this assessment, particularly the analysis of costs and benefits, relates to the incremental impact of XRB 2026/63. We have not assessed the broader impacts of the other standards XRB 2026/63 amends.

Applying the principles of responsible regulation

General comment on applying the statutory guidance

Some checklist items in the statutory guidance would require detailed analysis and documentation when evaluating consistency with the applicable principle. This situation arises because the statutory guidance appears to be premised on the assumption that the proposed legislation would establish or disestablish a regulatory system, increase the scope of a regulatory system, or increase or reduce the classes of number of entities or persons subject to existing regulation. This is not the case with the XRB's standards.

The statutory guidance states that:

- *the statutory guidance is not intended to provide an exhaustive list of all considerations that might be relevant when completing a CAS, or to define precisely what inconsistency with the principles might look like in all situations*
- *the statutory guidance sets out best practice and expectations in relation to what agencies should consider when undertaking their own assessments for the purposes of preparing a CAS, to help promote a standardised approach across agencies*
- *the individual circumstances and context of a piece of legislation are relevant to an assessment, and the guidance should be read in light of those circumstances, as well as the purpose of the Act.*

The guidance in this RS Act Assessment template aims to faithfully apply each principle and sub-principle in a proportionate manner in line with the XRB's narrow-scope powers to make secondary legislation.

12. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated XRB 2026/63 against all principles.

13. We have, in preparing this RS Act Assessment, considered the statutory guidance jointly issued in May 2026 by the Attorney-General and Minister for Regulation under section 26 of the RS Act.

S9(a)(i): The legislation should be clear and accessible

The principle

14. Section 9(a)(i) states that "the law should be clear and accessible". We have not identified any inconsistencies in XRB 2026/63 with this principle.

Statutory guidance on accessibility

The statutory guidance states that legislation should be easy to find by those it applies to. It also states that agency-published legislation should be published in full on the agency's website.

Statutory guidance on clarity

The statutory guidance states that:

- *the degree of clarity that is expected depends on the context, including who it applies to*
- *the legislation needs to be clear to its intended audience*
- *legislation that is mainly used by specialists and technical experts may be clear despite using technical terms*
- *in some cases, clarity of law can be enhanced by using technical content*

- *legislation that is cross-referenced (e.g. definitions in other legislation) and material incorporated by reference should be assessed in the same way as the legislation itself.*

Accessibility

15. The XRB 2026/63 and the IASB's Basis for Conclusions will be published on the accounting standards page on the XRB's website on the date that it was gazetted.

16. All extant XRB standards are searchable using the XRB Standards Navigator. There will be a time delay between the XRB 2026/63 being issued and the HTML version being published on the XRB Standards Navigator. Given the mandatory date of XRB 2026/63 is 1 January 2029, we will look to ensure the HTML version is accessible to the public well in advance of the mandatory date.

Clarity

17. XRB 2026/63 is a New Zealand equivalent to the consequential amendments included in IFRS 20 *Regulatory Assets and Regulatory Liabilities* which was issued by the International Accounting Standards Board (**IASB**). There are significant differences between the drafting approach and style used by the IASB and by the Parliamentary Counsel Office.

18. Except where changes have been considered appropriate having regard to New Zealand circumstances and law, we have generally used the same structure and wording in XRB 2026/63 as in the IASB's standard because it preserves global reporting consistency and comparability, avoids the risk of contradictions with other parts of XRB 2026/63 and other reporting standards, reduces the risk of disputes and reduces compliance costs. There are risks of other unintended consequences if a unique New Zealand version of the international standard were to be issued using a different drafting approach and style.

19. XRB 2026/63 cross-refers to the definition(s) including in other NZ IFRS Accounting Standards. We consider that the definition(s) cross-referred to are clear to the intended audience of Tier 1 and Tier 2 for-profit entities who are already familiar with and apply NZ IFRS Accounting Standards.

S9(a)(ii): The legislation should not adversely affect rights and liberties, or impose obligations, retrospectively

20. We have not identified any inconsistencies in XRB 2026/63 with this principle. Consistent with the prohibition on retrospectivity in section 28(2)(b) of the Financial Reporting Act 2013, XRB 2026/63 does not have retrospective effect.

S9(a)(iii): Every person is equal before the law

21. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to unequally administer the law.

S9(a)(iv): There should be an independent, impartial judiciary

22. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to compromise the independence or impartiality of the judiciary.

S9(a)(v): Issues of legal right and liability should be resolved by the application of the law, rather than the exercise of administrative discretion

23. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB issues standards as secondary legislation. These standards do not provide for the resolution of legal rights and liability in a manner that is contrary to the rule of law.

S9(b)): Legislation should not unduly diminish a person's liberty, personal security, freedom of choice or action, or rights to own, use and dispose of property without the consent of the owner except as is necessary to provide for, or protect, any such liberty, freedom, or right of another person

> ***Statutory guidance on liberties***
> *It is clear from the statutory guidance that the liberties principle only applies to natural persons. It also states that:*
> - *While most legislation involves setting some form of limit on rights or liberties, the intent is not to capture every situation where a liberty may be diminished to any degree.*
> - *This principle is only breached if the legislation both unduly diminishes rights or liberties, and does so more than is needed to provide for or protect others' rights and liberties.*

24. We have not identified any inconsistencies in XRB 2026/63 with this principle. XRB 2026/63 does not unduly diminish any of the rights or liberties referred to in this principle.

S9(c): Taking or severely impairing property without the owner's consent

25. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to take or severely impair private property.

S9(d)-(f): Taxes, fees and levies

26. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to impose or authorise the imposition of a tax, fee or levy.

S9(g): Legislation should preserve the courts' constitutional role of ascertaining the meaning of legislation

27. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to make an authoritative determination of the meaning of a standard or interfere with the judicial process in particular cases before the courts.

S9(h): Legislation should make rights and liberties, or obligations, dependent on administrative power only if the power is sufficiently defined and subject to appropriate review

28. We have not identified any inconsistencies in XRB 2026/63 with this principle. The XRB does not have the statutory power to make rights, liberties and obligations dependent on administrative power or limit judicial review.

S9(i): Consultation

The principle

29. Section 9(i) refers to "the importance of consulting, to the extent that is reasonably practicable, the persons or representatives of the persons that the responsible agency considers will be directly and materially affected by the legislation". We have not identified any inconsistencies in XRB 2026/63 with this principle.

> ***Statutory guidance on consultation***
> *The statutory guidance states that the expectation is that the focus of the assessment should be on consultation with persons outside Government.*
>
> *Much of the statutory guidance on consultation relates to the 'reasonably practicable' exception in s9(i). It states that this is a genuine urgency exception. Genuine urgency only arises when the legislation is needed for reasons beyond the responsible agency's control, such responding to a national emergency. It does not apply merely because the agency decided to act with urgency. For example, an agency that fails to consult with all directly and materially affected persons or their representatives because it legislated quickly in response to external pressures will have acted inconsistently with the principle.*

Our consultation on XRB 2026/63

30. XRB 2026/63 will directly and materially affect:

    (a) Tier 1 and Tier 2 for-profit financial reporting entities[1] that have regulated activities;

    (b) Users of Tier 1 and Tier 2 for-profit financial reporting entities ; and

    (c) Practitioners who conduct audits of historical financial information of Tier 1 and Tier 2 for-profit financial reporting entities.

31. The IASB's project on IFRS 20 began in 2008 and has taken a significant amount of time to conclude.

32. Throughout 2022–2024, the IASB considered the feedback received on the Exposure Draft and redeliberations proposals and made various decisions on the scope and defining features of rate regulation, recognition conditions (including direct relationship with assets), measurement (future cash flows, discounting) and presentation and disclosures of new balances. In July 2024, the IASB confirmed that due process had been satisfied and authorised the project to move to issuing the final Standard.

33. The XRB has consulted with those would be directly and materially affected by the proposals as part of our consultation processes under the FR Act, which also included the consequential amendments to other IFRS Accounting Standards due to the requirements in IFRS 20. We took the following steps to consult in New Zealand and consider the responses made by New Zealand stakeholders:

    (a) The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on any of the Exposure Drafts, however some New Zealand stakeholders did respond directly to the IASB on the 2021 Exposure Draft.

    (b) The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements,

[1] This class of financial reporting entity is defined in Section B of XRB A1: Application of the Accounting Standards Framework.

and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements within the measurement model). The XRB did not receive any further comments from the New Zealand submitters after the Exposure Draft period.

(c) As part of the XRB's participation on the Accounting Standards Advisory Forum (ASAF), we regularly received updates on the progress made by the IASB on IFRS 20 and shared these with our Accounting Technical Reference Group (TRG) throughout September 2024 to July 2025 and gathered their feedback which was shared with the IASB as part of their considerations. No issues were raised as part of the updates which would directly or materially impact other stakeholders.

S9(j): Evaluation

The principle

34. Section 9(j) refers to the importance of carefully evaluating:

i. the issue concerned
ii. the effectiveness of any relevant existing legislation and common law
iii. whether the public interest requires that the issue be addressed
iv. any options (including non-legislative options) that are reasonably available for addressing the issue
v. who is likely to benefit, and who is likely to suffer a detriment, from the legislation.

35. We have not identified any inconsistencies in XRB 2026/63 with this principle.

Section 9(j)(i) – The importance of carefully evaluating the issue concerned

The statutory guidance on evaluating the issue
The statutory guidance states that the agency should develop a clear problem definition that identifies and (to the extent feasible) quantifies the problem that the proposed legislation seeks to address. This involves:

- *identifying the problem and its root causes, including consideration of whether any market failure is involved*
- *assessing the nature, scale, and urgency of the issue, to the extent possible, based on available evidence*
- *assessing why the issue is significant and what will happen if it is not addressed, including any opportunity cost.*

36. XRB 2026/63 is the *Consequential Amendments arising from NZ IFRS 20* and is equivalent to consequential amendments included in IFRS 20 *Regulatory Assets and Regulatory Liabilities*. These amendments ensure coherence of the suite of NZ IFRS standards with the introduction of NZ IFRS 20. NZ IFRS 20 is based on IFRS 20 and is expected to improve the quality of financial reporting by requiring companies to provide information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

37. Regulatory assets and regulatory liabilities are a subset of the rights and obligations created by a regulatory agreement. These rights and obligations can affect a company's financial performance and financial position, and users of financial statements' assessment of the

company's future cash flows. Companies applying IFRS Accounting Standards were previously not required to report such information.

38. IFRS 20 helps to fill a gap in IFRS Accounting Standards globally. It supplements the requirements in IFRS 15 *Revenue from Contracts with Customers* by requiring companies to provide information that gives insights into the total amount of compensation to which a company is entitled for regulatory goods or services supplied in the period (thereby giving a more complete picture of the revenue earned from those goods and services).

39. IFRS 20 is intended to reduce diversity in accounting practice globally. All entities applying IFRS Accounting Standards across jurisdictions will apply the same set of requirements for providing information about regulatory assets and regulatory liabilities in their financial statements, which will provide consistent information to users and allow for greater comparability around regulatory assets and regulatory liabilities for relevant entities.

40. For IFRS Accounting Standards, if New Zealand did not adopt the relevant standard or amendment, then affected for-profit Tier 1 entities would no longer be able to assert compliance with IFRS Accounting Standards. Maintaining compliance with all applicable IFRS Accounting Standards is important for New Zealand because it enables Tier 1 for-profit entities to continue asserting IFRS compliance. This supports access to global capital markets by providing international investors with financial information that is consistent, comparable and credible.

41. The XRB therefore needs to adopt all standards and amendments issued by the international body, subject to New Zealand's due process, if New Zealand for-profit Tier 1 entities are to continue to assert IFRS compliance. This was an important consideration for Tier 1 entities when developing the Accounting Standards Framework and using IFRS Accounting Standards for for-profit entities.

42. For Tier 2 entities. maintaining the same recognition and measurement requirements with Tier 1 entities is important, as these entities are economically significant to New Zealand and consistent requirements help users and stakeholders understand, compare and make decisions based on consistent for-profit entity financial statement information. This was an important consideration for Tier 2 entities when developing the Accounting Standards Framework and using IFRS Accounting Standards for for-profit entities.

Section 9(j)(ii) – The importance of carefully evaluating the effectiveness of existing law

The statutory guidance on the effectiveness of existing law
The statutory guidance states that the agency should assess whether existing legislation and common law already address the problem. This involves:

- *identifying what current legislation or common law is relevant to the issue and assessing whether and how it is already working to address the issue or issues*
- *identifying any gaps, overlaps, or inefficiencies.*

43. Current legislation and common law do not effectively address the issue as there are no current formal reporting requirements which require companies to provide information about regulatory assets, regulatory liabilities, regulatory income and regulatory expense.

Section 9(j)(iii) – The importance of carefully evaluating whether the public interest requires that the issue be addressed

The statutory guidance on the public interest
The statutory guidance states that the agency should consider whether (based on available evidence) the scale, urgency, and impact of the issue indicates that it needs to be addressed in the public interest.

44. It is in the public interest to issue *Consequential Amendments arising from NZ IFRS 20* to facilitate New Zealand entities access to global capital markets and to allow for international comparability of financial statements through a common set of financial reporting requirements.

45. It is also in the public interest for XRB 2026/63 to apply from the same date as IFRS 20. The New Zealand standard and the international standard would impose different requirements for a time if the application dates were different if the application dates were to be different, which would cause misalignment with New Zealand entities and comparable international entities.

Section 9(j)(iv) – The importance of carefully evaluating any options that are reasonably available for addressing the issue

The statutory guidance on options
The statutory guidance states that the agency should:
- *consider non-legislative options – noting that the policy objective might be achieved more effectively through education programmes, reliance on the common law or existing legislation, or reliance on existing civil remedies*
- *identifying all feasible options (or groups of options) that would address the identified problem or achieve the identified objective, including any deregulatory options*
- *assessing the effectiveness, cost, and feasibility of these options relative to each other and to the status quo.*

46. The XRB publishes non-legislative guidance, but usually to provide guidance about a standard, not as an alternative to issuing a standard. We publish guidance because it:

    (a) provides practical support for applying standards

    (b) helps reporting entities, assurance providers, users and regulators understand and implement complex rules

    (c) promotes reporting or assurance consistency among entities and practitioners that choose to use it.

47. There are no reasonably available non-legislative options. It is essential for New Zealand reporting entities to prepare financial statements in accordance with all International Financial Reporting Standards to promote worldwide user understandability, cross-border comparability and facilitate reporting entities' access to capital.

Section 9(j)(v) – Distributional impacts

The statutory guidance on distributional impacts
The statutory guidance states that agencies should identify:
- *those are affected by the legislation and how those effects differ across different groups*

- *any equity or fairness issues that have arisen because of the legislation*
- *any unintended consequences that have resulted for any groups.*

48. The purpose of XRB 2026/63 is to improve the overall quality of the financial reporting requirements that must be applied by Tier 1 and Tier 2 for-profit entities. Primary users benefit in the form of better decision-making and accountability information. Reporting entities benefit by obtaining increased access to capital. The costs of reporting are borne largely by reporting entities.

49. There are no fairness or equity issues.

S9(k): Implementation

The principle

50. The principle identifies the importance of the responsible agency identifying and developing effective arrangements for implementing the legislation.

The statutory guidance on implementation
The statutory guidance states that agencies should:
- *develop an overall strategy for implementing the chosen option, including the steps and actions required*
- *identify the key risks associated with the implementation of the legislation, and develop possible mitigation strategies to address these risks*
- *identify the roles and responsibilities of all parties involved in the implementation process, including the responsible agency and any other stakeholders*
- *identify the resources required for implementation, including financial, human, and technical resources.*

51. XRB 2026/63 is the *Consequential Amendments arising from NZ IFRS 20* and is equivalent to consequential amendments included in IFRS 20 *Regulatory Assets and Regulatory Liabilities*. The IASB has produced several implementation support materials which will help New Zealand entities in their implementation of NZ IFRS 20. These resources have all been linked on the accounting standards page on the XRB's website.

52. We will educate and support the requirements of the new standard through our communication channels and through our webinars. We also plan to engage directly with the Commerce Commission's Infrastructure Regulation Branch and regulated entities in New Zealand who would be impacted by the requirements of XRB 2026/63. These include electricity distribution businesses and gas pipeline businesses) who are regulated under Part 4 of the Commerce Act through 'price-quality paths' regulatory tools. We will look to hold implementation roundtable on practical issues around XRB 2026/63, where considered necessary.

53. While XRB 2026/63 is applicable to all Tier 1 and Tier 2 entities, only a limited smaller population or regulated Tier 1 and Tier 2 entities will be significantly impacted by the new requirements. As such, the impacted regulated entities will likely have the resources available to implement XRB 2026/63 given their familiarity with complex regulated processes, and we do not anticipate committing significant time or resources to support implementation.

54. The XRB will continue to monitor any challenges and implementation issues around NZ IFRS 20 and will respond proportionately through either referral to available international resources or to the IFRS Interpretations Committee if considered appropriate.

55. Overall, we have not identified any inconsistencies in XRB 2026/63 with this principle.

S9(l): Benefits exceed the costs

The principle

56. The principle states that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or persons. Our analysis of benefits and costs of XRB 2026/63 appears in Appendix A.

> ***The statutory guidance on benefits and costs***
> *The statutory guidance states that agencies should:*
> - *identify all expected major costs and benefits*
> - *quantify and monetise costs and benefits in dollar terms to the extent feasible*
> - *identify and disclose any expected effects that cannot be monetised*
> - *identify who is expected to benefit and who is expected to bear the costs*
> - *disclose any risks or uncertainties, or any key assumptions affecting the analysis.*

57. We are satisfied that the benefits exceed the costs for the reasons stated in Section E of Appendix A.

S9(m) – Effectiveness, efficiency and proportionality

The principle

58. The principle states that the legislation should be the most effective, efficient and proportionate response to the issue concerned that is available.

59. We have not identified any inconsistencies in XRB 2026/63 with this principle.

> ***The statutory guidance on effectiveness, efficiency and proportionality***
> *This principle focuses on ensuring that the legislation is the optimal response to the policy problem or objective it aims to address or achieve, within the options reasonably available. Assessments of consistency against this principle can draw on assessments made against the other principles, particularly the other good law-making principles. More specifically:*
> - ***Effectiveness**: There should not be other options that can better achieve the defined objectives or deliver more net benefits.*
> - ***Efficiency**: There should not be other options that achieve the defined objectives with the same benefit at less cost.*
> - ***Proportionality**: There should not be other responses that would align better with the level of severity, urgency and/or scope of the issue in question, and/or would be more flexible or less costly.*

60. Issuing XRB 2026/63 is the most effective, efficient and proportionate response to give users a better understanding of regulatory assets and regulatory liabilities for entities, reduce diversity in accounting practice globally and provide support access to global capital markets by

providing international investors with financial information that is consistent, comparable and credible.

Attachments

- Appendix A – Benefits and Costs Assessment

Appendix A – Benefits and Costs Assessment

This Appendix records the XRB's assessment of whether the expected benefits of issuing or adopting a standard are likely to exceed the expected costs, consistent with the good law-making principle in section 9(l) of the Regulatory Standards Act 2025.

Links

Section A – XRB approach to evaluating benefits and costs

Section B – International benefit-cost considerations

Section C – Domestic benefit-cost considerations

Section D – Benefit-cost questions and feedback from respondents

Section E – Overall conclusion

Standard Name	Consequential Amendments arising from NZ IFRS 20
Standard Reference	XRB 2026/63
Principal Standard(s) / Amendment	Amending Standard
Significant impact/ narrow-scope	Narrow-scope
Impacted entities	Tier 1 and Tier 2 For-Profit Entities

Section A – XRB approach to evaluating benefits and costs

The purpose of this appendix is to record the XRB's assessment of the major expected benefits and costs of issuing or adopting XRB 2026/63. The assessment supports the good law-making principle that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or to persons.

This assessment compares the expected future state if XRB 2026/63 is issued or adopted with the counterfactual position if XRB 2026/63 is not issued. It identifies the main affected parties, the expected benefits and costs, distributional impacts, uncertainty and the extent to which benefits and costs can be quantified or monetised.

The purpose of the XRB's standards is to promote trust and confidence, transparency and accountability through high-quality external reporting and assurance. We do this by establishing and maintaining robust frameworks and standards that are internationally credible and locally relevant. The development of New Zealand standards in line with the XRB's due process requirements, build on the due process, research, consultation and effects analysis undertaken by international standard-setting bodies, assessing whether the resulting requirements are appropriate for New Zealand. The XRB therefore considers both the factual position and the counterfactual position, including what would occur if XRB 2026/63 were not issued or adopted.

The analysis carried out by the relevant international standard setting board provides the starting point. Our domestic analysis then considers whether those benefits and costs are relevant, proportionate and sufficiently evidenced in the New Zealand context.

This assessment has been prepared with reference to the Ministry for Regulation's cost-benefit analysis resource. Consistent with that guidance, the XRB applies a proportionate approach and addresses the following matters:

- Identify all expected major benefits and costs
- Identify who is expected to benefit and who is expected to bear the costs
- Quantify and monetise benefits and costs in dollar terms to the extent feasible
- Identify and disclose any expected effects that cannot be monetised
- Disclose any risks or uncertainties, or any key assumptions affecting the analysis.
- Compare the factual and counterfactual positions, including the consequences of no regulatory change.

Section B – International benefit-cost considerations

The International Accounting Standards Board (IASB) sets IFRS Accounting Standards. The IASB has identified the following benefits and costs associated with its proposed global standard, on which the New Zealand standard is based. These matters are outlined in the IASB's Basis for Conclusions, global Effects Analysis and other supporting material.

For IFRS Accounting Standards, the counterfactual is that New Zealand does not adopt the relevant standard or amendment. In that case, affected for-profit Tier 1 entities would no longer be able to assert compliance with IFRS Accounting Standards, because IFRS compliance requires compliance with all applicable IFRS Accounting Standards, which would impact on Tier 1 entities ability to access global capital markets as investors need consistent and comparable information to make effective capital decisions.

The XRB therefore needs to adopt all standards and amendments issued by the international body, subject to New Zealand's due process, if New Zealand for-profit Tier 1 entities are to continue to assert IFRS compliance. For Tier 2 entities. maintaining the same recognition and measurement requirements with Tier 1 entities is important, as these entities are economically significant to New Zealand and consistent requirements help users and stakeholders understand, compare and make decisions based on consistent for-profit entity financial statement information.

The other major expected benefits and costs are as follows.

Qualitative Assessment

Major expected benefits (International)
• **More complete information about performance and compensation (users):** XRB 2026/63 provides a more complete picture of a regulated entity's financial performance by recognising the full compensation to which the entity is entitled for goods or services supplied in a period, not just the amounts billed through regulated rates during that period. This helps users better understand how costs are recovered, how regulatory arrangements operate, and what future cash flows can be expected. • **Greater transparency of regulatory effects (users and reporting entities):** XRB 2026/63 requires regulatory assets, regulatory liabilities, regulatory income and regulatory expense to be recognised and presented separately in the financial statements. This makes the effects of regulatory timing differences more visible and understandable, allowing users to see how regulation affects both profit and financial position. • **Improved comparability (users and regulators):** By introducing a single accounting model, XRB 2026/63 reduces the diversity that previously existed in accounting for

regulated activities. Investors and other users will be better able to compare entities operating under similar regulatory regimes, compare regulated entities across jurisdictions, and compare results over time. Differences in reported outcomes should more closely reflect economic differences rather than differences in accounting policies

- **Better decision-making and lower information-gathering costs (users and reporting entities):** Users often had to obtain information about regulatory balances from alternative performance measures or regulatory filings. By bringing this information into audited financial statements, XRB 2026/63should improve investment and lending decisions while reducing the need for users to gather and reconcile information from multiple sources.
- **Potential benefits for preparers (reporting entities):** Reporting entities may benefit from improved communication with investors, greater consistency between finance and regulatory functions, and more transparent and comparable reporting. XRB 2026/63 is also expected to improve digital reporting through more consistent presentation of regulatory information.

Major expected costs (International)

- **Systems and process changes (reporting entities):** The largest implementation costs are expected to arise from modifying or developing systems, processes and internal controls. Entities may need new capabilities to identify timing differences, estimate and discount future cash flows, track the recovery or fulfilment of regulatory balances, and generate the required disclosures. These costs are expected to be highest for entities that do not currently recognise regulatory balances.
- **Internal training and education (reporting entities):** Entities will need to educate finance teams, regulatory specialists, management and other staff about the new requirements and the impact on reported results. Although these costs are expected to reduce over time, the initial learning effort may be significant, particularly where the accounting requirements differ from existing regulatory reporting practices.
- **Communication with external stakeholders (reporting entities):** Entities are expected to incur costs explaining the effects of XRB 2026/63 to investors, analysts, lenders and other stakeholders. Because XRB 2026/63 may alter reported revenue, profit, assets, liabilities and key financial metrics, entities will need to communicate these changes clearly to avoid misinterpretation.
- **Additional audit and compliance costs (reporting entities):** XRB 2026/63 introduces areas requiring judgement, such as assessing enforceable rights and obligations, estimating future cash flows, evaluating risks and determining whether the “direct relationship” criterion is met. These judgements are expected to lead to incremental audit costs and additional compliance effort, especially during initial implementation.
- **Costs for users and other stakeholders (users and assurance practitioners and regulators):** Investors, analysts, regulators and auditors will initially need to spend time understanding the new information, adjusting valuation models and analysing changes from previous reporting practices. However, these initial costs are likely to be temporary and decrease once stakeholders are familiar with this information.

Quantitative Assessment

The IASB has not provided a monetised assessment of the benefits and costs for this standard. The XRB has therefore considered the major expected qualitative benefits and costs, the parties affected, the counterfactual position and the practical constraints on quantification.

A quantified or monetised assessment is not feasible for this standard because the affected entities, systems, judgements and transition costs will vary materially by entity. The XRB has therefore relied on this qualitative assessment, while identifying the affected parties, the main categories of cost and benefit, the likely timing of impacts and the key uncertainties.

This is in line with the Ministry for Regulation guidelines.

Section C – Domestic benefit-cost considerations

In addition to the international considerations around benefits and costs outlined above, benefit and cost considerations in the New Zealand context have also been considered. The major expected benefits and costs within the New Zealand context for XRB 2026/63 are as follows.

Qualitative Assessment

Major expected benefits (Domestic)
• **Improved access to international capital (users and reporting entities):** IFRS Accounting Standards are used in more than 150 jurisdictions and are a recognised global reporting framework. This makes financial statements easier to read in global markets. Alignment with all IFRS requirements would provide investors with information that is consistent with IFRS reporting globally, reducing the need for international investors to adjust the effects of rate regulation. This could improve confidence in NZ financial reporting and potentially reduce information asymmetry for investors, analysts and credit rating agencies, and reduces information risk, improves transparency and decision-making, and may lower the cost of capital. • **Comparability and credibility (users and reporting entities):** Alignment with IFRS Accounting Standards improves comparability across borders and strengthens the credibility of New Zealand reporting. Alignment with IFRS requirements signals that New Zealand reporting meets globally recognised expectations for transparency, discipline and investor protection and would allow New Zealand entities to report the effects of regulatory arrangements on a more comparable basis with overseas peers, supporting investor analysis and benchmarking and better decision-making based on relevant regulatory information. • **Efficiency and effectiveness from using an established international framework (reporting entities and assurance practitioners):** Using IFRS Accounting Standards allows for New Zealand build on the IASB's research, consultation and testing and allow New Zealand entities and assurance practitioners benefit from international guidance and reporting around rate-regulation which is based on IFRS 20. This reduces the need to develop separate local requirements and gives New Zealand access to global expertise on complex reporting issues. • **Better alignment between financial reporting and New Zealand regulatory frameworks (reporting entities and regulators):** New Zealand economic regulators already require significant information regarding regulated assets, allowable returns, wash-ups and price-quality regulation from regulated entities. XRB 2026/63 would bring some of these economic effects into general purpose financial statements, making it easier for users to understand how regulatory decisions affect financial performance and future cash flows. This will reduce duplication and improve consistency in reporting.
Major expected costs (Domestic)
• **Implementation and transition costs (users and reporting entities and assurance practitioners):** Adopting or applying a new international standard creates implementation costs for reporting entities and assurance practitioners (where relevant) to understand the requirements, update accounting policies, amend systems or templates, and train staff. The population of affected entities in New Zealand is relatively small, and as a result, implementation costs may be concentrated among a relatively small number of preparers, auditors and advisers while providing benefits to a narrower user population than in larger economies. • **Auditor and valuation expertise costs (reporting entities and assurance practitioners):** The New Zealand market is relatively small and additional demand for

specialised regulatory expertise may increase implementation and audit costs of XRB 2026/63 because there are fewer local specialists with experience applying rate-regulated accounting models compared with larger jurisdictions.

- **Potential impacts on debt covenants and performance measures (reporting entities and assurance practitioners):** Many New Zealand infrastructure entities use regulatory measures, EBITDA metrics or covenant calculations in financing arrangements. XRB 2026/63 may change reported assets, liabilities, revenue and earnings measures, potentially requiring lenders and entities to revisit covenant definitions and management performance metrics.
- **Local relevance and proportionality (reporting entities):** IFRS Accounting Standards are developed for use across a wide range of jurisdictions and entity types. In some cases, the requirements in XRB 2026/63 may be more extensive than is necessary for some New Zealand regulated entities or may require additional explanation to support consistent application. We consider the benefits of international alignment, as outlined in Section A provides means the requirements remain relevant and proportionate to New Zealand for regulated entities.

Quantitative Assessment

Consistent with the Ministry for Regulation guidelines, we do not consider a quantitative assessment of benefits and costs (including compliance cost estimates, one-off and ongoing cost estimates and sensitivity analysis) to be feasible for this standard. We have relied upon the comprehensive qualitative assessment performed above to support our conclusion.

Section D – Benefit-cost questions and feedback from respondents

The IASB's project on IFRS 20 *Regulatory Assets and Regulatory Liabilities* began in 2008 and has taken a significant amount of time to conclude. In 2021, the IASB issued an Exposure Draft that proposed a comprehensive recognition, measurement, presentation and disclosure model. The XRB published all relevant IASB Exposure Drafts on our website when these were issued and notified New Zealand stakeholders of these proposals. The NZASB did not comment on the Exposure Draft, however three New Zealand stakeholders submitted comment letters.

The comments raised by New Zealand stakeholders on the Exposure Draft related primarily to the scope of these requirements to the nature of regulatory arrangements, and cost and challenges around how certain requirements around discounting and minimum interest rates could be practically applied. The IASB's changes following the Exposure Draft help address some of the challenges raised by New Zealand stakeholders (like the removal of minimum interest rate requirements). The XRB did not receive any further comments from the New Zealand submitters after the Exposure Draft period and as the project progressed by the IASB.

Given the large size but small number of rate-regulated entities in New Zealand, we consider the feedback received on the proposed standard through previous Exposure Drafts and the actions taken by the IASB in response to the feedback to be appropriate and proportionate to ensure that the benefits of XRB 2026/63 are realised and the costs imposed are justified, noting the costs and benefits are borne by different parties.

For both Tier 1 and Tier 2 entities, we consider the benefits of NZ IFRS 20 are expected to outweigh its costs, primarily because it improves the completeness, transparency and comparability of information about rate-regulated activities, leading to better economic decision-making and reduced reliance on information outside the financial statements and allows for international alignment of reporting

around this area. At the same time, XRB 2026/63 also includes several practical expedients, scope clarifications and transition reliefs to reduce implementation costs for entities where appropriate.

Section E – Overall conclusion

We consider the benefits of XRB 2026/63 to outweigh the costs, and our considerations and conclusions are consistent with the requirements of the Regulatory Standards Act 2025.

Consistent with the Ministry for Regulation guidelines, the XRB applies a proportionate approach to evaluating the benefits and costs of XRB 2026/63. Major expected benefits are ongoing and relate to improved decision-useful information being reported to New Zealand users and stakeholders while major expected costs are implementation and on-going costs to comply with requirements, borne primarily by reporting entities.

These expected benefits and costs are in line with expectations, given the role of financial reporting standards to support minimum requirements for general-purpose reporting by entities to users and stakeholders for decision-making purposes.

This analysis and conclusion support the statement in the CAS that we have not identified any inconsistencies in developing this standard with the principles of principles of responsible regulation.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Proposed RDR Concession – NZ IFRS 20 *Regulatory Assets and Regulatory Liabilities***
Date:	1 October 2026
Prepared by:	Nimash Bhikha
Through:	Michelle Lombaard

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

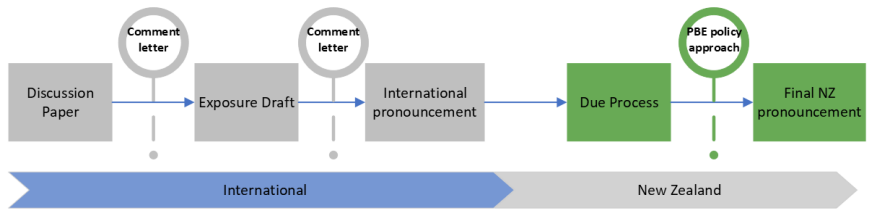
COVER SHEET

Project priority and complexity

Project purpose	**IASB Purpose:** To develop proposals to introduce a requirement for companies to give investors such information by reporting regulatory assets and regulatory liabilities in their statement of financial position, and related regulatory income and regulatory expense in their statement of financial performance. **NZ Purpose:** To ensure the IASB's requirements are appropriately incorporated into NZ IFRS Standards to support the reporting of regulatory asset and regulatory liability information to users of regulated entities financial statements.
Cost/benefit considerations	**Benefits:** This standard will maintain alignment within international standards and the resulting information would help investors understand which fluctuations in the relationship between a company's revenue and expenses are caused by those differences in timing so that investors could make better assessments of the company's prospects for future cash flows. **Costs:** This standard has complex requirements for rate regulated entities and will result in implementation and on-going costs for these entities, as well as other stakeholders (users, auditors, regulators) who are involved with the reported information of these entities. Further cost and benefit considerations are made within this memo.

Project priority	**Low** While the proposed changes within the standard are significant, this is not expected to impact many entities in New Zealand and is not considered a financial reporting priority for New Zealand overall.

Overview of agenda item

Project status	
Board action required	**High complexity** • **AGREEMENT** with the proposed Tier 2 disclosure requirements and consultation plan on NZ IFRS 20

Purpose

1. The purpose of this memo is to seek approval of disclosure requirements for Tier 2 for-profit entities for *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*.

Recommendations/ actions

2. We recommend that the Board **AGREE** to the proposed disclosure requirements for Tier 2 for-profit entities and to the proposed consultation with respect to *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*.

Structure of this memo

3. This memo includes the following sections:
   (a) Assessment of the Tier 2 rate-regulated population in New Zealand
   (b) Background
   (c) Consistency with Australian Accounting Standards
   (d) Appendix 1 – RDR Concession Analysis

Assessment of the Tier 2 rate-regulated population in New Zealand

4. Most rate-regulated entities in NZ are large, publicly accountable, or Crown-owned through State Owned Enterprises (SOEs). The entities subject to formal economic regulation under the Commerce Act (Part 4) are typically electricity distribution businesses, gas pipeline businesses, airports (specified services), water services entities (from 2025 onward) and Transpower (transmission).

5. These entities tend to be large (above the "large" threshold in the Financial Reporting Act), economically significant and often publicly accountable (e.g., debt listings, public benefit nature, or Crown ownership). These entities are all required to report under Tier 1 NZ IFRS Accounting Standards.

6. In practice, based on our review of regulated entities financial statements, regulated utilities almost always exceed the scale and complexity, as this is primarily why they are regulated in the first instance.

7. Based on our analysis, the potential Tier 2 rate-regulated entities in New Zealand would be a very small population and potentially include:

    - **Electricity distribution businesses or gas pipeline operators which do not have public accounting (through listed debt or shares)** – We note most electricity distribution businesses and gas pipeline operators are Tier 1 entities, either due to having public accountability, or being public sector for-profit entities with expenses greater than $33 million. From our review of their financial statements, many regulated entities report using Tier 1 requirements to provide consistent information to the Commerce Commission because of being regulated under Part 4 of the Commerce Act 1986. We have only identified two regulated entities which apply Tier 2 NZ IFRS RDR.
    - **Regulated airports** – However only the three major airports (Auckland, Wellington, Christchurch) are subject to information disclosure regulation at present, and these are all classified as Tier 1 entities.
    - **Entities subject to "light-handed" regulation** – Some sectors (e.g. telecommunications, fuel, retail payments) may be subject to some regulated price caps or benchmarking in the future and depending upon their size, smaller entities may be reporting in Tier 2. However, most of the significant entities (Spark, Chorus, One NZ) are Tier 1 entities.
    - **Niche or localised regulated services** – There may be isolated cases where a small for-profit entity is subject to a regulatory pricing regime (e.g. a concession-based monopoly), but these are likely to be very rare and fall under contractual regulation rather than economic regulation.

Background

8. As per our (draft) RDR policy for Tier 2 for-profit entities, we have upon issue of the amending standard from the IASB, applied the RDR policy to identify potential disclosure concessions. Refer to Appendix 1 for the analysis of the disclosures and recommendations non proposed concessions.

9. Overall, we consider that the NZ IFRS 20 disclosures are important to understanding the regulatory asset and regulatory liability balances which would be reported by regulated entities and the disclosure requirements relate to either:

    - Core quantitative and movement disclosures (such as paragraphs 69, 72–75, 78(b)–(c), 81–83) which are key disclosure areas for users in relation to liquidity/solvency and understanding the fundamental context of the regulatory asset and regulatory liability balances and are necessary to support the new accounting model and should not receive RDR concessions.

- Narrative risk/uncertainty and relationship disclosures (such paragraphs 78(b), 79–80, 82–83) which are key contextual information to understand the nature of the arrangements and the regulatory asset and regulatory liability balances which will be new to users and reporting entities and should not receive RDR concessions.

10. We propose moving forward with the staff recommendations in the table below. Based on the (draft) RDR policy, we are required to consult on Tier 2 disclosure requirements in all circumstances – whether proposing any RDR concessions or not.

11. Given the level of applicability of these amendments within New Zealand, we do not believe an extensive consultation is required and no active outreach initiatives will be performed. We propose that these are consulted on via our website for a shorter period of 60 days. If any feedback is received on no RDR concession being proposed, we will analyse this and present it to the Board in a future meeting.

Consistency with Australian Standards

12. As at the date of this memo, we have reached out to staff of the Australian Accounting Standards Board (AASB) to understand the timing for when the amendments will be sent to the AASB for approval and what Tier 2 disclosures requirements will be incorporated.

13. We will provide a verbal update of AASB staff plans at the Board meeting.

Questions for Board:

Q1. Does the Board **AGREE** to the Tier 2 disclosure requirements in respect to *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*?

Q2. Does the Board **AGREE** to the 60-day consultation proposed within this memo in respect to not providing any RDR concession on *NZ IFRS 20 Regulatory Assets and Regulatory Liabilities*?

Appendix 1 – RDR Concession Analysis

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
Disclosures							
68	**The overall objective of paragraphs 69–83 and B95–B97 is to require an entity to disclose in the notes information about the entity's:** **(a) regulatory income and regulatory expense that, together with the information required by other NZ IFRS Accounting Standards, will provide insights into the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period, and hence into the entity's financial performance and prospects for future cash flows; and** **(b) regulatory assets and regulatory liabilities that will provide insights into the entity's financial position at the end of a reporting period and the amount, timing and uncertainty of the entity's future cash flows.**	*Overall disclosure objective for the whole package*. Contextual information fundamental to understanding performance, financial position, and future cash flows; also closely linked to liquidity and solvency (timing and uncertainty of cash flows).	This paragraph itself does not add a separate disclosure; it frames the objective and helps users interpret the detailed requirements. It supports clear, principle-based application and helps avoid boilerplate.	**High benefits.** Helps users understand why the subsequent disclosures matter and how they relate to performance and future cash flows which is core contextual information.	**No incremental costs.** This is an objective, not a separate disclosure line item.	No NZ legislative exemption for this type of information identified. IFRS for SMEs and IFRS 19 both rely on disclosure objectives to guide reduced disclosures, so retaining the objective is consistent with those approaches.	**No concession proposed.** This is an objective, not a separate burden. This requirement underpins the rest of the disclosures and aligns with the framework's emphasis on contextual information.
Regulatory assets and regulatory liabilities and resulting regulatory income and regulatory expense							
69	An entity shall disclose information that enables users of financial statements to understand: (a) the amounts that are recognised in the statement of financial position and statement(s) of financial performance for regulatory assets, regulatory liabilities, regulatory income and regulatory expense; and (b) the nature of unrecognised regulatory assets or unrecognised regulatory liabilities and the reason they have not been recognised.	*High-level disclosure of recognised balances and performance, plus unrecognised regulatory items*. Liquidity and solvency (through understanding regulatory assets/liabilities and related income/expense) and contextual information (nature and reasons for non-recognition).	This is the core "what is in and what is out" disclosure. Without it, users cannot understand the impact of rate regulation on performance and position. It is analogous to core disclosures in other standards (e.g., provisions, financial instruments).	**High benefits.** Users of Tier 2 utilities or other regulated entities need to understand how much of performance and position is driven by regulatory mechanisms, and what is not recognised but economically relevant.	**Moderate costs.** Entities will already need to track these balances for recognition and measurement purposes. Summarising amounts and explaining unrecognised items is incremental but not fundamentally new.	No NZ legislative exemption for this type of information identified. IFRS for SMEs does not have a rate-regulation standard, but where similar "recognised vs unrecognised" concepts exist (e.g., provisions), core disclosures are generally retained. IFRS 19 still requires key information about significant balances and performance—this is analogous.	**No concession proposed.** This is a key disclosure (liquidity/solvency + fundamental context) and should be retained for Tier 2.

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
70	This information provides insights into: (a) the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period, in particular the extent to which part or all of the total allowed compensation for regulatory goods or services supplied by the entity in a reporting period was (or will be) included in determining the regulated rates charged to customers—and hence included in NZ IFRS 15 revenue—in a different period; and (b) the amount, timing and uncertainty of the entity's future cash flows.	*Clarifies the analytical purpose of the disclosures (inter-period allocation and future cash flows).* Contextual information and liquidity and solvency (timing and uncertainty of cash flows).	This is explanatory rather than an additional data requirement. It helps staff and preparers understand why the disclosures matter and supports better, more targeted disclosure.	**High benefits.** Helps users interpret the numbers—especially the inter-period effects of regulation on revenue and cash flows	**No incremental costs.** This is explanatory information and does not create any further requirements beyond the underlying disclosures.	Consistent with the framework's emphasis on explaining the nature, extent, and risks of transactions.	**No concession proposed.** This is not a separate disclosure requirement; it supports the objective.
71	To achieve the objective set out in paragraph 69, an entity shall apply paragraphs 72–81.	Scoping statement linking objective to detailed disclosures. Not a separate disclosure; it simply points to the detailed requirements.	No incremental burden.	**High benefits.** This provides clarity and direction on the scope of disclosures.	**No incremental costs.**	No NZ legislative exemption for this type of information identified. No international precedents noted.	**No concession proposed.** This is a structural paragraph only.
Recognised regulatory assets and recognised regulatory liabilities							
72	An entity shall disclose, in a table, reconciliations from the opening to the closing carrying amounts of regulatory assets and from the opening to the closing carrying amounts of regulatory liabilities. In the reconciliations, an entity shall group the changes described in paragraph 73 into: (a) changes included in the statement of profit or loss; (b) changes included in other comprehensive income; and (c) other changes not included in (a) or (b) (see paragraph 73(g)).	*Movement reconciliation of regulatory assets and liabilities.* Liquidity and solvency (how balances evolve) and contextual information (nature and drivers of changes).	Reconciliations are a "key disclosure" for complex balances (like provisions, PPE, etc). They help users understand origination, recovery/fulfilment, and other changes. For regulated entities, these movements are central to understanding performance and risk.	**High benefits.** Users can see how much of the change is due to new regulatory items, recovery, interest, remeasurements, or business combinations.	**Moderate costs.** Requires tracking movements by category, but entities already need this information for accounting and regulatory reporting. For many regulated Tier 2 entities, systems will already capture these movements.	No NZ legislative exemption for this type of information identified. IFRS for SMEs often simplifies reconciliations but retains them for key balances; IFRS 19 also uses reconciliations in some areas. Given the significance of regulatory balances, this aligns with international practice.	**No concession proposed.** This is a key liquidity/solvency and contextual disclosure.
73	An entity shall disclose in the reconciliations required by paragraph 72 changes in the carrying amount of a regulatory asset or regulatory liability arising from: (a) the origination of regulatory assets during the reporting period;	*Disaggregation of movements and explanation of "other" and non-P&L changes.*	The breakdown between origination, recovery/fulfilment, interest, and other changes is highly	**High benefits.** Users can distinguish normal regulatory flows from unusual remeasurements	**Moderate to potentially high costs.** This may add costs for entities with less sophisticated	No NZ legislative exemption for this type of information identified. Internationally, similar movement analyses are	**No concession proposed.** This is important information to users as understanding

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
	(b) the origination of regulatory liabilities during the reporting period; (c) the recovery of regulatory assets during the reporting period; (d) the fulfilment of regulatory liabilities during the reporting period; (e) regulatory interest income on regulatory assets or regulatory interest expense on regulatory liabilities; (f) other components of regulatory income or regulatory expense—for example, changes in the carrying amount of a regulatory asset or regulatory liability arising from remeasurements of the regulatory asset or regulatory liability or changes in the boundary of a regulatory agreement; and (g) changes in regulatory assets and regulatory liabilities that did not give rise to regulatory income or regulatory expense—for example, regulatory assets acquired and regulatory liabilities assumed in a business combination.	Contextual information and liquidity and solvency (understanding how and why balances change).	decision-useful. The explanation of 73(f)–(g) prevents "black box" movements. However, the level of granularity could be burdensome for smaller Tier 2 entities if systems are not aligned.	or business combinations, which is important for assessing sustainability of earnings and risk.	systems, especially tracking and explaining 73(f)–(g) in detail. However, these disclosures are still closely linked to recognition and measurement processes.	common for complex balances. IFRS 19 does not specifically address rate-regulated balances yet, but where reconciliations exist, they are often retained or only lightly simplified.	unusual/non-P&L movements are important contextual information. We note for 73(f)–(g) explanations there may be scope for this to result in detailed disclosures if they are relevant, however this information would be useful to users where relevant.
74	An entity shall provide an explanation of the items described in paragraph 73(f)–(g).						
75	For regulatory assets and regulatory liabilities measured in accordance with paragraph 34, an entity shall disclose quantitative information, using time bands, about when it expects to recover the regulatory assets and fulfil the regulatory liabilities. The entity shall disclose the quantitative information disaggregated between: (a) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate that is not nil; and (b) regulatory assets and regulatory liabilities for which a regulatory agreement applies a regulatory interest rate of nil.	*Maturity analysis of regulatory assets and liabilities (timing of cash flows)*. Liquidity and solvency (timing of cash flows) and risks specific to the transaction.	This is very similar in spirit to maturity analyses under NZ IFRS 7. It directly addresses the timing and uncertainty of cash flows—classic key disclosure territory. However, it can be costly where systems are not set up to project regulatory cash flows by time band.	**High benefits.** Users can see when regulatory balances are expected to turn into cash inflows and outflows, which is critical for assessing liquidity and solvency.	**Potentially high costs.** For smaller Tier 2 entities if they must build new models to allocate balances into time bands using undiscounted cash flows and consistent assumptions.	No NZ legislative exemption for this type of information identified. IFRS for SMEs simplifies some maturity analyses but still requires key information about liquidity. IFRS 19 philosophy is to retain essential risk and liquidity information but reduce detail where possible.	**No concession proposed.** Information around timebanks is critical to understanding future cash flows and liquidity and given the nature of regulatory assets and liabilities, this is a key liquidity/solvency and contextual disclosure to support Tier 2 users understanding of when these balances will be realised. We also note the requirements emphasise
76	The entity shall determine the quantitative information required by paragraph 75 using: (a) undiscounted cash flows, excluding regulatory interest cash flows; and						

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
	(b) reasonable and supportable assumptions about the timing of future cash flows that are consistent between periods.						management's judgement in selecting time bands and Tier 2 entities may aggregate this where they consider this to be appropriate to their users.
77	The entity shall use its judgement to determine an appropriate number of time bands for the quantitative information required by paragraph 75. For example, an entity might determine appropriate time bands to be: (a) not later than one year; (b) later than one year and not later than three years; (c) later than three years and not later than five years; and (d) later than five years.						
78	For regulatory assets and regulatory liabilities measured in accordance with paragraph 34, an entity shall also disclose: (a) the discount rate, or ranges of discount rates, used in measuring regulatory assets and regulatory liabilities to which a regulatory agreement applies a regulatory interest rate; (b) an explanation of how uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities; and (c) the carrying amounts of regulatory assets and of regulatory liabilities at the end of the reporting period to which the entity has applied the exemption from discounting estimated future cash flows in paragraph 50.	*Discount rates, uncertainty, and identification of non-discounted balances.* Contextual information (nature of measurement, key estimates and judgements) and risks specific to the transaction.	(a) Discount rates are important for understanding measurement and sensitivity. (b) Uncertainties: directly addresses risk and estimation uncertainty—strongly aligned with key disclosures. (c) Non-discounted balances help users understand where measurement is less refined and may be less comparable.	**Moderate to high benefits.** Users gain insight into the risk profile and measurement basis of regulatory balances, which affects comparability and risk assessment.	**Low to moderate costs.** (a) Discount rate ranges would have low incremental cost (rates are already used internally). (b) Uncertainties: narrative explanation cost would mainly be staff time. (c) Identifying non-discounted balances would have low incremental cost if tracked.	No NZ legislative exemption for this type of information identified. Internationally, disclosures about discount rates and uncertainties are common for long-term, judgemental balances (e.g., pensions, provisions). IFRS 19 tends to retain such core risk/estimate disclosures.	**No concession proposed.** Information around assumptions is useful to users and are key contextual/risk disclosures. We note the costs of these disclosures are relatively low as these assumptions will have to be determined by all entities for recognition and measurement purposes, so information would already be available.
79	For regulatory assets and regulatory liabilities measured by an entity applying paragraph 60, the entity shall provide information about the regulatory assets and regulatory liabilities and the related liabilities and related assets that explains: (a) the relationship between the carrying amounts, and changes therein, of the regulatory assets or regulatory liabilities and	*Linkage between regulatory balances and underlying related items (e.g., pension obligations).* Contextual information and risks	This is quite sophisticated and may be relevant only where paragraph 60 measurement is used (i.e., more complex situations). It helps avoid double-counting	**High benefits,** Where applicable these disclosures would help users to see how regulatory assets/liabilities offset or interact with, say, pension	**Potentially high costs.** For smaller entities, this would require integrated analysis across standards and narrative explanation of risk	No NZ legislative exemption for this type of information identified. IFRS for SMEs and IFRS 19 often reduce cross-standard linkage disclosures, but they still	**No concession proposed.** These disclosures only applies when paragraph 60 is used (already a more complex scenario). The Tier 2 entities which would be impacted by this

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
	the carrying amounts, and changes therein, of the related liabilities or related assets; (b) the relationship between the risks associated with the regulatory assets or regulatory liabilities and the risks associated with the related liabilities or related assets; and (c) how uncertainties affect the recovery of regulatory assets or fulfilment of regulatory liabilities.	specific to the transaction.	or misunderstanding risk by showing how regulatory and underlying items interact.	obligations, and how risks align or differ.	relationships. However, this would also already be needed for the recognition and measurement requirements under paragraph 60.	require enough information to understand major risk relationships.	is narrower and more likely more sophisticated. This information is considered useful to users where entities have already applied paragraph 60.
80	For example, if a regulatory asset arises from pension costs and is measured by an entity applying paragraph 60, the entity will need to consider how to disclose the information required by this Standard and the information required by IAS 19 Employee Benefits in a manner that shows the relationships described in paragraph 79.						
Unrecognised regulatory assets and unrecognised regulatory liabilities							
81	An entity shall disclose information about unrecognised regulatory assets and unrecognised regulatory liabilities that enables users of financial statements to understand: (a) the type of compensation or deduction the unrecognised regulatory assets and unrecognised regulatory liabilities relate to; and (b) the reason they have not been recognised—for example, an entity might not recognise a regulatory asset because the entity has determined that its regulatory capital base does not have a direct relationship with a related item or items (see paragraph 29).	*Nature and reasons for unrecognised regulatory items.* Contextual information and risks/uncertainty (what is economically relevant but not recognised).	This is analogous to contingent assets/liabilities and unrecognised tax losses. It is highly decision-useful where unrecognised items could significantly affect future cash flows or capital.	**High benefits.** Users gain insight into potential future rights/obligations that are not on the balance sheet, and why.	**Moderate costs.** Requires identification and description of unrecognised items, but entities should already consider these in recognition judgements.	No NZ legislative exemption for this type of information identified. These disclosures are similar to contingent disclosure concepts in IAS 37, which are generally retained in reduced disclosure frameworks.	**No concession proposed.** This is a key contextual/contingent-type disclosure.
Relationship between an entity's regulatory capital base and related items							
82	**An entity shall disclose information that enables users of financial statements to understand the relationship between the entity's regulatory capital base and a related item or items. That understanding will: (a) provide insights into the nature of a regulatory agreement and the effect of a regulatory agreement on the entity's financial position and financial performance; and**	*How the regulatory capital base relates to accounting items and how inflation is treated.* Contextual information (nature and characteristics of the regulatory	This is central to understanding how regulation interacts with the financial statements—especially where the regulatory capital base differs from the accounting carrying amounts. It also	**High benefits.** Users can understand whether the regulatory capital base is aligned with accounting values, how that may change over time, and how	**Moderate costs.** Requires analysis and explanation, but regulators typically define the capital base, so the information is available.	No NZ legislative exemption for this type of information identified. Internationally, regulators often require similar explanations in regulatory reports. IFRS 19's philosophy supports retaining key contextual	**No concession proposed.** This is fundamental contextual information for regulated entities.

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
	(b) enable users to make comparisons between entities subject to different regulatory agreements.	agreement) and risks specific to the transaction.	affects how inflation and returns are set.	inflation is compensated, which is key to understanding returns and risk.		information about how regulation affects financial reporting	
83	To achieve the objective in paragraph 82, an entity shall disclose: (a) the type of relationship (direct or not direct) between its regulatory capital base and a related item or items; (b) the reasons why the entity determined that the relationship is of that type; (c) any change to or from a direct relationship, and the reason for the change; and (d) the regulatory approach (nominal or real) used by the regulator to compensate the entity for inflation on its regulatory capital base (see paragraphs B51(a) and B52).						
Application Guidance - Disclosure—Aggregation and disaggregation							
B95	Paragraphs 41–43 of NZ IFRS 18 Presentation and Disclosure in Financial Statements set out requirements relating to the aggregation and disaggregation of information. In applying these requirements to information about regulatory income, regulatory expense, regulatory assets and regulatory liabilities, an entity shall consider whether to use the same aggregation or disaggregation of such information provided for other purposes—for example, disclosures presented outside the financial statements, such as in regulatory reports.	*Guidance paragraphs on how to aggregate/disaggregate regulatory information for disclosure.* This is not a separate disclosure but contextual information around how to aggregate and disaggregate regulatory information for disclosure.	These paragraphs guide how to present information already required; they do not impose additional data requirements. They can help avoid over-aggregation (losing important distinctions) or over-disaggregation (excessive detail).	**Moderate benefits**. Thie guidance will help lead to better structured and more meaningful disclosures.	**Minimal costs.** This guidance is about judgement in presentation and would Tier 2 entities understand and apply relevant disclosure requirements.	No NZ legislative exemption for this type of information identified. No international precedents noted.	**No concession proposed.** These are application guidance paragraphs; they do not create additional disclosure obligations beyond those already assessed.
B96	Examples of characteristics that might be appropriate as a basis to aggregate or disaggregate the information required by this Standard about regulatory income, regulatory expense, regulatory assets and regulatory liabilities include: (a)type of rate-regulated activity—for example, electricity distribution, gas distribution, water supply; (b) geographical location; (c) type of regulatory agreement—for example, service concession arrangements or contractual licensing agreements;						

Para	Disclosure requirement	Key disclosure area	Assess additional factors	Overarching Benefits	Overarching Costs	Legislative exemptions / International precedents	Summary of analysis and staff recommendation
	(d) type of items that the regulatory assets or regulatory liabilities relate to—for example, recovery of input cost variances, performance incentives, recovery of income taxes, recovery of pension costs; and (e) exposure to substantially different risks or uncertainties.						
B97	The appropriate aggregation or disaggregation might differ for different information and will also depend on the disclosure requirement and disclosure objective to which the information contributes.						

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To: NZASB Members

Meeting date: 12 October 2026

Subject: **IPSAS adoption around the world**

Date: 1 October 2026

Prepared by: Gali Slyuzberg

Through: Leana van Heerden, Michelle Lombaard

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

Purpose[1]

1. As part of the review of the New Zealand Accounting Standards Framework (ASF), different framework options are being considered for Tier 1 and Tier 2 public benefit entities (PBEs). One of the possible framework options is to base standards for such entities on IFRS Accounting Standards, rather than IPSAS – i.e. to move to a 'sector neutral' approach.
2. The purpose of this paper is to inform the consideration of the option above, by providing information on the history of adoption of IPSAS around the world. Specifically, this paper considers:
   (a) Whether any jurisdictions have moved *from IPSAS to IFRS Accounting Standards* for their public sector; and
   (b) Whether jurisdiction that have *recently moved from cash accounting to accrual accounting* in the public sector tended to select *IPSAS or IFRS Accounting Standards* on moving from cash to accrual.
3. This paper does not assume that international practice determines the appropriate framework for New Zealand, but uses that practice as contextual evidence to inform the Board's consideration.

Recommendations

4. We recommend that the Board **NOTES** the information in this paper for the purpose of the discussion on PBE framework options for public sector and not-for-profit PBEs.

Structure of this memo

5. This memo has the following sections:
   (a) Background
   (b) IPSAS adoption around the world

[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® Standards, IFRIC® Interpretations and IASB® papers).

(c) Movements in IPSAS adoption: 2020–2024

(d) Observations

Background

Background: The IPSASB and IPSAS

6. The International Public Sector Accounting Standards Board (IPSASB) develops accounting standards (and, more recently, sustainability standards) for use by public sector entities. The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants (IFAC).

7. The IPSASB's predecessor body was the Public Sector Committee (PSC), which was established by IFAC as a standing committee with a broad mandate to develop programs to improve public financial management and accountability. Over the next 10 years, the PSC issued studies on specialised accounting issues in the public sector. In 1996, the PSC's role changed to an international accounting standard setter for the public sector, with the launch of its Standards Program. In 2004, the PSC was relaunched as the IPSASB with revised terms of reference to reflect the Board's mandate to focus on developing and issuing IPSAS.[2]

8. The IPSASB's current strategic objective is:

   (a) **Delivering Global Standards**: Developing and maintaining public sector financial and sustainability reporting standards.

   (b) **Inspiring Adoption and Implementation**: Raising awareness of the IPSASB Standards and the benefits of their adoption and implementation.

9. The IPSASB follows an open and transparent due process to ensure that IPSAS are developed in the public interest. This process provides the opportunity for all those interested in public sector financial and sustainability reporting, including those directly affected by the Standards, to make their views known to the IPSASB, and ensures that all views are considered in the standard-setting development process.

10. As explained in Agenda Item 6.3 on *Alignment between IPSAS and IFRS Accounting Standards*:

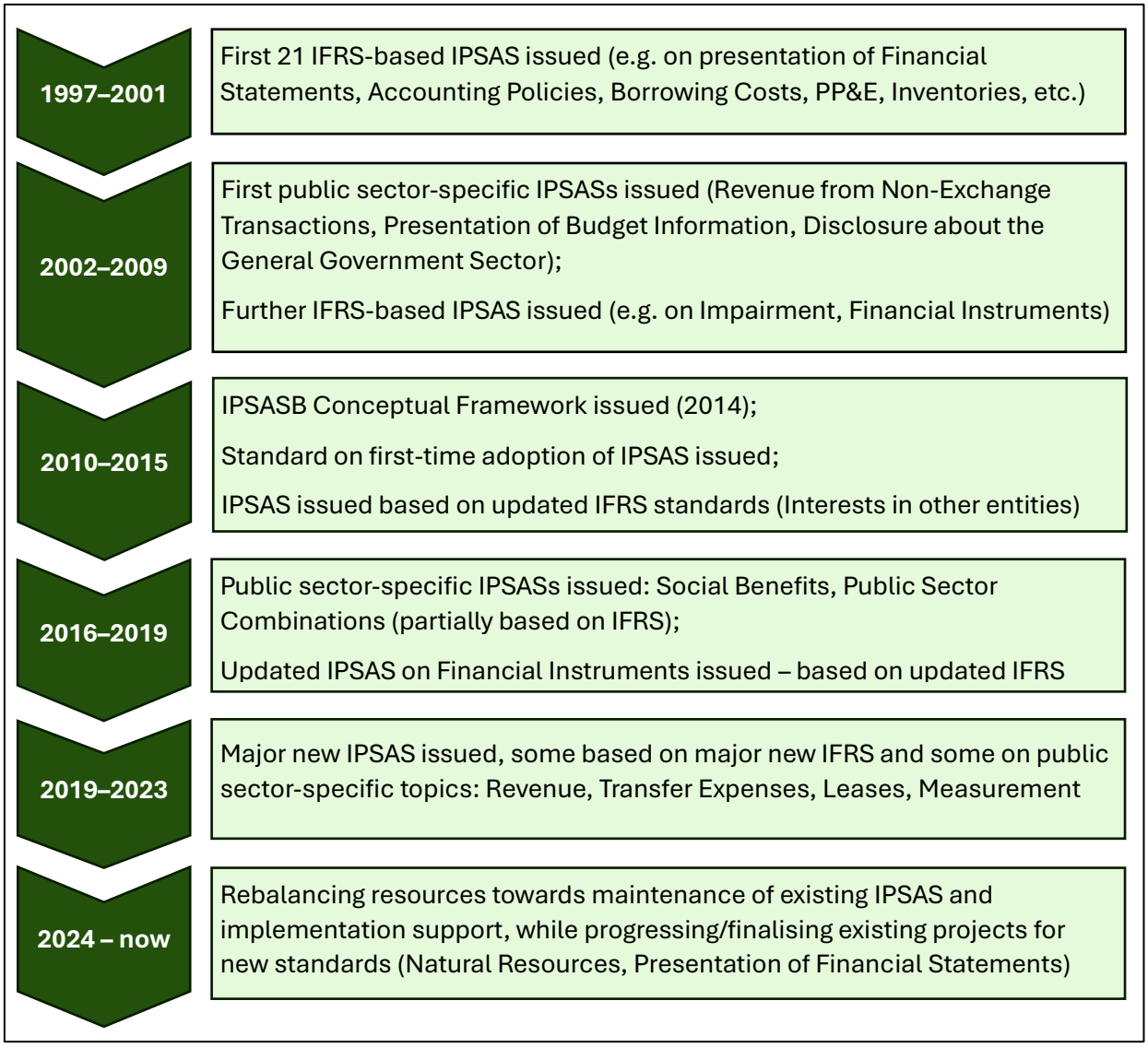
    (a) Many IPSAS are based on IFRS Accounting Standards, but in developing IPSAS based on IFRS Accounting Standards, the IPSASB considers the need for modifications for public sector-specific considerations, and makes such modifications where appropriate (e.g. modifications to IFRS-based revenue requirements to cover revenue from sources such as taxes, grants and donations; specific requirements for assets received in a non-exchange transaction to be initially recognised at fair value/current operational value; modifications to financial instruments requirements to cover concessionary loans, etc.).

    (b) The IPSASB has also developed several public sector-specific IPSAS on topics not covered by IFRS Accounting Standards (e.g. transfer expenses, natural resources).

11. A brief history of the IPSASB's financial reporting standards (IPSAS) is shown in Figure 1 below – noting that this graphic does not provide a complete list of all IPSAS on issue.

[2] Per the IPSASB website – About IPSASB | IPSASB (under 'History)

Figure 1 Brief history of IPSAS Standards



12. IPSAS are the only suite of international accounting standards developed specifically for the public sector for the preparation of general purpose financial statements (we are not including the Government Finance Statistics Manual 2014 in this category – see the paragraph 17). The IPSASB has been expanding its activities to support the application of its standards through the IPSASB Application Group and other current and upcoming initiatives. According to IFAC's *International Public Sector Financial Accountability Index* (2024), of the 53 jurisdictions where the public sector reports under the full accrual basis, 35 jurisdictions adopt IPSAS or standards based on IPSAS[3], including New Zealand. If this analysis is expanded to jurisdictions where the public sector reports under the full or partial accrual basis, the number of jurisdictions adopting IPSAS or standards based on IPSAS is 77[4]. More information is included in the section 'IPSAS adoption around the world'.

[3] The reference to 'IPSAS or standards based on IPSAS' covers accrual-based IPSAS with no modifications, accrual-based IPSAS modified for the local context, and national standards with reference to accrual-based IPSAS.

[4] Per the International Public Sector Financial Accountability Index – 2025 Status Report: (available here): Under the 'accrual basis', transactions are recognised in the financial statements when an underlying economic event occurs – which is not necessarily when cash is paid or received – resulting in the recognition of assets and liabilities in the balance sheet. Under the 'cash basis', transactions are recognised only when cash is received or paid. Under the 'partial accrual basis', some transactions are recognised on the accrual basis and some on cash basis. Refer to the

Background: Review of the ASF – multi-sector vs sector-neutral approach

13. Please refer to the Background section in the agenda item *Alignment between IPSAS and IFRS Accounting Standards*. A brief summary of the background information on the ASF review is provided below.

    (a) A key element of the New Zealand ASF is its multi-sector, multi-standards approach, i.e.:

        i. Standards for for-profit entities are based on IFRS Accounting Standards.

        ii. Standards for PBEs in Tier 1 and Tier 2 are primarily based on IPSAS, with some modifications for enhanced local relevance in New Zealand.

    (b) Before the current ASF was introduced in 2012, New Zealand standard setting was underpinned by a sector-neutral approach, where standards for both for-profit entities and PBEs were based on IFRS Accounting Standards, with some modifications for PBEs.

    (c) However, in the years leading up to the introduction of the current ASF, concerns have been arising about the appropriateness of the sector-neutral approach for PBEs and the users of their financial statements. Considering these concerns, the current ASF takes the multi-sector approach mentioned above.

    (d) As part of the ASF review, we are considering different framework options for developing accounting standards for PBEs. This includes considering the option of going back to a 'sector-neutral' approach, whereby standards for PBEs (or a specific PBE sector, e.g. public sector PBEs) are directly based on IFRS Accounting Standards, rather than on IPSAS. This paper aims to inform the considerations on this topic.

14. This paper explores whether any jurisdictions where the public sector previously reported under accrual-based IPSAS have moved away from accrual-based IPSAS and towards IFRS Accounting Standards. If several jurisdictions had made such a move, this would provide relevant evidence when assessing whether a sector-neutral approach, with IFRS-based standards across sectors, could be a credible option for the ASF. If there are no examples of such a move, this may be relevant to assessing whether IPSAS-based standards remain an appropriate basis for New Zealand public sector PBEs in Tier 1 and Tier 2.

15. The paper also explores whether jurisdictions where the public sector recently moved from cash accounting to accrual accounting have tended to select IPSAS or IFRS Accounting Standards as their first accrual accounting framework. If such jurisdictions are tending to select IPSAS, this could be an indicator in favour of IPSAS-based standards for New Zealand public sector PBEs in Tier 1 and Tier 2, as this would indicate that given the choice between IFRS Accounting Standards and IPSAS, governments tend to select IPSAS for public sector reporting. Conversely, if governments are tending to select IFRS Accounting Standards when moving from cash accounting to accrual accounting, this could be an indicator in favour of a sector-neutral IFRS-based standards suite.

16. Please note: When this paper refers to adoption of 'IPSAS' and movements towards or away from 'IPSAS', it is referring to the IPSASB's accrual-based suite of IPSAS. The IPSASB had also issued a cash accounting standard, but trends in the adoption of this cash-based standard is not covered in this paper.

17. Please also note that we have not considered the adoption of the Government Finance Statistics Manual 2014 (GFSM) in this paper. More information on this is included below.

(a) As explained in the PBE Conceptual Framework (based on the IPSASB Conceptual Framework), many governments produce two types of ex-post financial information: government finance statistics and general purpose financial statements[5].

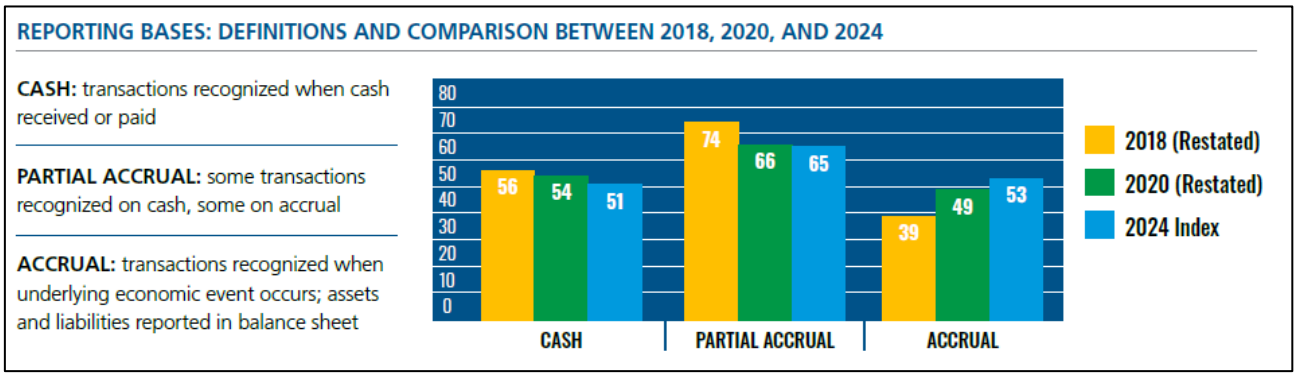
(b) We acknowledge that that the Government Finance Statistics Manual 2014 (GFSM) also constitutes an international statistical reporting framework for governments. However, the GFSM is a *macroeconomic* statistical framework designed to *support fiscal analysis*. Its primary purpose is to provide a conceptual and reporting framework for *analysing and evaluating fiscal policy*, particularly the performance of the *general government sector and broader public sector*.[6] GFS reports are used to analyse fiscal policy options, make policy, evaluate the impact of fiscal policies, determine the impact on the economy, and compare outcomes nationally and internationally[7]. This differs from the purpose of general purpose financial reporting, which is to provide information about a *reporting entity* that is useful to primary users – being resource providers, service recipients and their representatives – for accountability and decision-making purposes.[8] The different objectives and focus on different reporting entities lead to the different treatment of some transactions and events. In addition to differences in presentation and classification of items, there are also recognition and measurement differences – for example, some provision liabilities that are recognised under general purpose financial reporting frameworks like IPSAS and IFRS Accounting Standards are not recognised under GFSM. More information about these differences is included in the papers '**Reporting requirements in Australia for public sector and private sector not-for-profit entities**' and '**Public sector Tier 1 and Tier 2 framework review**'.

(c) Consequently, we have not analysed trends in GFSM adoption in this paper (and GFSM is not include in our analysis of alternative frameworks for Tier 1 and 2 public sector PBEs).

IPSAS adoption around the world

18. We have included below an extract from *The International Public Sector Financial Accountability Index – 2025 Status Report*[9], published by IFAC, the IPSASB and the Chartered Institute of Public Finance and Accountancy (CIPFA). The extract below shows the percentages of jurisdictions where the public sector reports under the cash basis, partial accrual basis and full accrual basis. The Status Report is based on data in the *International Public Sector Financial Accountability Index*, which covers financial reporting bases and frameworks used by federal and central governments around the world.

Figure 2 Public sector reporting bases used around the world



[5] XRB, Public Benefit Entities' Conceptual Framework, Preface, paragraphs 20.
[6] International Monetary Fund, Government Finance Statistics Manual 2014, paragraphs 1.1–1.2.
[7] International Monetary Fund, Government Finance Statistics Manual 2014, paragraphs A6.11.
[8] XRB, Public Benefit Entities' Conceptual Framework, paragraphs 2.1–2.4.
[9] This report is available on the following webpage : International Public Sector Financial Accountability Index: 2025 | IFAC

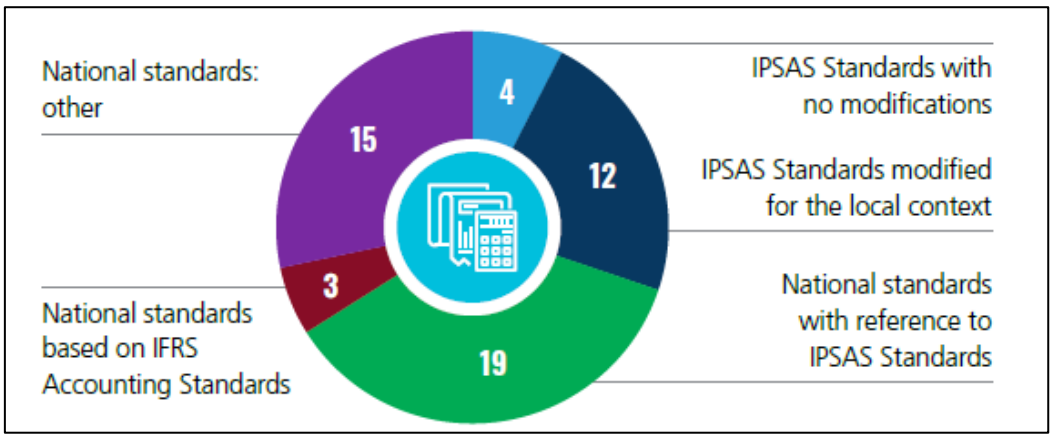
19. As can be seen from Figure 2, cash-basis reporting has been decreasing among public sectors around the world, and accrual-based reporting has been increasing (with partial accrual reporting decreasing as jurisdictions complete their move from cash accounting via the partial accrual basis to full accrual basis).

20. The diagram below, extracted from the Status Report, shows IPSAS adoption by jurisdictions where the public sector reports under the full accrual basis. Of the **53 jurisdictions** that report under the **full accrual basis**:

    (a) **35 jurisdiction** report in accordance with **IPSAS, IPSAS modified for the local context or national standards with reference to IPSAS**. New Zealand is included in this group.

    (b) Only **3 jurisdictions** report under national standards based on **IFRS Accounting Standards** (the same three jurisdictions mentioned above).

Figure 3 Standards applied by public sector in jurisdictions using full accrual basis (2024)



21. The table below lists the jurisdictions represented in the graph above, according to data from the index linked above:

Table 1: Standards applied by public sector in jurisdictions using full accrual basis (2024)

Standards used	Number of jurisdictions	Jurisdictions
IPSAS Standards with **no modifications**	4	Cayman Islands, Ghana, Philippines, Tanzania
IPSAS Standards **modified** for the **local context**	12	Brazil, Chile, Colombia, Georgia, Iceland, Israel, Lithuania, **New Zealand**, Nigeria, Saudi Arabia, Switzerland, Türkiye
National standards with **reference to IPSAS** Standards	19	Argentina, Armenia, Austria, Cook Islands, Czech Republic, Ecuador, Estonia, France, Vatican, Indonesia, Kazakhstan, South Korea, Latvia, Peru, Russian Federation, Spain, Sweden, Ukraine, United Arab Emirates
***Total** IPSAS or IPSAS-based standards*	*35*	*See above*
National standards based on **IFRS** Accounting Standards	3	Australia, United Kingdom, Jersey

Standards used	Number of jurisdictions	Jurisdictions
National standards: Other	15	American Samoa, Belgium, Canada, Denmark, Federated States of Micronesia, Finland, Guam, Guatemala, Hong Kong, Marshall Islands, Northern Mariana Islands, Palau, Poland, United States of America, Vanuatu

22. It is also worth noting the following about two jurisdictions excluded from the table above:

    (a) **South Africa:** In the *International Public Sector Financial Accountability Index*, South Africa is classified as applying 'partial accrual' accounting in the public sector, and its standards are classified as 'national standards: other'. This is because the South African government's consolidated financial statements and government departments' financial statements are currently prepared on a modified cash basis – although the plan is to ultimately transition to accrual accounting. However, 'public entities' in the South African public sector apply accrual-based standards based on IPSAS, known as 'Generally Recognised Accounting Practice' (GRAP). These 'public entities' include state-owned enterprises, regulatory bodies and authorities, constitutional institutions (e.g. Electoral Commission), the South African Reserve Bank and the Auditor General of South Africa.

    (b) **Kenya:** Kenya is currently in the process of adopting IPSAS (without modifications) on a full accrual basis for the government and public sector. Full IPSAS implementation is expected by 2027.

Movements in IPSAS adoption: 2020 - 2024

23. We have compared the 2024 data in the *International Public Sector Financial Accountability Index* about IPSAS adoption among jurisdiction around the world with the related data from 2020, which is when the last Index was published[10]. We used 2020–2024 because it provides a recent and directly comparable period using the IFAC/CIPFA Index data. The purpose of the analysis is to identify the current direction of travel in public sector reporting in order to answer the questions in paragraphs 14 and 15 of this paper (which are relevant to the ASF review), rather than to provide a complete historical account of every jurisdiction's reporting framework decisions since IPSAS was first developed.

24. Key insights from this comparison are summarised in the table below. Please note that this table excludes the following:

    (a) Jurisdiction on which there was no data in the Index for either 2020 or 2024; and

    (b) Movements between different ways of adopting IPSAS (e.g. movements from 'IPSAS with no modifications' to 'IPSAS modified for the local context' and vice versa).

25. In addition to tracking movements from cash to full accrual accounting, the tables also covers movements from cash accounting to partial accrual accounting. Please note that the IPSAS suite assumes full accrual accounting, and there is no "partial accrual" IPSAS suite or standards. We understand "partial accrual basis" to mean that some transactions are accounted for on an accrual basis and some on cash basis – for example, if the jurisdiction has not fully adopted all IPSAS Standards or if some of the entities that consolidated into the government's financial statements are reporting under the cash basis while other have already transitioned to accrual basis. We also understand that partial accrual accounting can be an intermediate step towards full accrual accounting, and if a jurisdiction adopts IPSAS-based

[10] We copied the 2024 information from the *International Public Sector Financial Accountability Index* webpage into Excel, and compared against the information from the 2020 Index which we had obtained in 2020 (when it was still available online).

standards when transitioning to the partial accrual basis, it seems likely that the jurisdiction would also apply IPSAS-based standards if and when it moves to the full accrual basis. Therefore, movements from the cash basis to partial accrual basis, together with movements from cash basis and from partial accrual basis to full accrual basis, can help understand the direction of travel for public sector reporting.

Table 2: Movement towards and away from accrual basis (2020-2024)

Type of movement	Details of movement	Number of jurisdictions	Jurisdictions
Jurisdictions moving **towards accrual** basis	Cash to accrual	1	Saudi Arabia
	Cash to partial accrual	3	Germany, Ireland, Nicaragua
	Partial accrual to full accrual	6	Armenia, Georgia, Ghana, Kazakhstan, Poland, United Arab Emirates (UAE)
	Total	**10**	
Jurisdictions moving **away from full accrual** basis	None identified[11]		

Table 3: What standards were adopted when moving to accrual accounting? (2020-2024)

Standards adopted	Type of movement	Number of jurisdictions	Jurisdictions
IPSAS-based standards	Cash to accrual	1	Saudi Arabia (IPSAS modified for local context)
	Cash to partial accrual	1	Ireland (IPSAS modified for local context)
	Partial accrual to full accrual	5	Armenia, Kazakhstan, UAE (National standards with reference to IPSAS); Georgia (IPSAS modified for local context); Ghana (IPSAS with no modifications);
	Total	**7**	
Standards based on **IFRS Accounting Standards**	Any	**0**	None
National Standards - other	Cash to partial accrual	2	Germany, Nicaragua
	Partial accrual to accrual	1	Poland
	Total	**3**	

[11] The adoption status of Serbia changed from partial accrual basis in the 2020 Index to cash basis in the 2024 Index, and the status of Dominican Republic, Japan and Moldova changed from full accrual accounting in the 2020 Index to partial accrual in the 2024 Index – but based on further research, this seems to be a correction of the 2020 classifications for these jurisdictions, rather than a move away from full accrual basis/towards cash basis.

Table 4: Movement towards and away from IPSAS (2020-2024)

Type of movement	Details of movement	Number of jurisdictions	Jurisdictions
Jurisdictions moving **towards IPSAS-based** standards *(accrual or partial accrual basis)*	**From**: National standards: other; **To**: National standards with reference to IPSAS [full accrual basis]	2	Argentina, France
	From: National standards: other; **To:** National standards with reference to IPSAS [partial accrual basis]	6	Albania, Bolivia, Burkina Faso, Croatia, Japan, Uruguay
	From: National standards: other; **To**: IPSAS modified for the local context [full accrual basis]	1	Saudi Arabia
	From: National standards: other; **To:** IPSAS modified for the local context [partial accrual basis]	2	El Salvador, Ireland
	Total	**11**	
Jurisdictions moving **to standards based on IFRS Accounting Standards**	**From:** IPSAS or IPSAS-based standards **To:** Standards based on IFRS Accounting Standards	**0**	None identified
	From: National standards: other **To:** Standards based on IFRS Accounting Standards	**0**	None identified
Jurisdictions moving **away from IPSAS-based** standards to **other national standards**	**From:** IPSAS or IPSAS-based standards **To:** National standards: other	**0**	None identified[12]

26. To supplement the information in the tables above and provide further context, we have attempted to understand the rationale behind moving towards accrual-based IPSAS for two countries: Saudi Arabia and Ireland.

    (a) **Saudi Arabia:** The IFAC/CIPFA Index indicates that Saudi Arabia moved from cash accounting in 2020 to adopting IPSAS (full accrual basis) in 2024. The following points could help in understanding the rationale for IPSAS adoption in Saudi Arabia.

    - According to the IFAC article *The Saudi Arabian Public Sector's Journey to Accrual Accounting: Lessons Learned and Key Insights*, "the shift to accrual accounting has significantly improved the quality of financial reporting in the public sector" in Saudi Arabia, as the recognition of assets and liabilities help the government "provide a clearer picture of its financial position and performance. This transparency is crucial for informed decision-making and fostering public trust".

[12] The adoption status of Serbia and Bosnia and Herzegovina changed from "national standards with reference to IPSAS" and "IPSAS with no modifications" respectively in the 2020 Index to "national standards – other" in the 2024 Index – but on further research, it seems that Serbia is largely applying cash accounting with reference to the IPSASB's cash accounting standard (and had done so previously), and Bosnia Herzegovina seem to still be progressing towards IPSAS adoption. These changes in status seem to be corrections of the 2020 classifications.

- The IFAC article mentioned above also notes the following specifically in relation to adopting IPSAS: "Adopting IPSAS has aligned Saudi Arabia's public sector accounting practices with global standards, facilitating comparisons with other countries and enhancing the credibility of the Kingdom's financial statements. This alignment also supports international investors and stakeholders in understanding the government's financial health".
- A report by the Ministry of Finance of Saudi Arabia, '*The Saudi Arabian public sector's transition to accrual accounting'*, has referred to drawing heavily on IPSASB guidance material specifically aimed at supporting IPSAS adoption in the public sector to facilitate the transition to accrual accounting in the public sector.[13]

(b) **Ireland:** The IFAC/CIPFA Index indicates that Ireland moved from cash accounting in 2020 to IPSAS modified for the local context (partial accrual basis) in 2024. We understand that Ireland is classified as applying the 'partial accrual' basis of accounting in the Index because it is still in the process of transitioning to full accrual accounting in the public sector. The IFAC website notes the following about the Irish central government: "Current appropriation accounts remain primarily cash-based, with certain accrual-based information included in the Statement of Financial Position and related notes". The Irish government has been developing Central Government Accounting Standards (CGAS) based on IPSAS. It has been issuing IPSAS-based CGAS in stages, rather than as a complete suite. This process is not yet complete. The following points could help in understanding the rationale for adopting IPSAS in the Irish public sector.

- The OECD report '*Financial Reporting in Ireland*' (2019) included recommendations to modernise the public sector financial reporting system in Ireland by moving from cash accounting to accrual accounting, with a suggested roadmap that uses IPSAS as the main reference framework for developing public sector standards. The OECD notes that in considering whether to choose IPSAS or IFRS Accounting Standard as the basis for its public sector standards, the Irish government should note that "only two OECD countries (Australia and the UK) use IFRS as a basis for the development of their public sector accounting standards [...], while an increasing number of countries are using IPSAS".
- As noted on the Irish government website, the Irish government subsequently agreed with the abovementioned recommendations in the OECD report, i.e. to move to accrual-based standards based on IPSAS, with the Minister for Finance and Public Expenditure and Reform noting the following: "These reforms will ensure that Ireland's system for financial reporting and accounting can be at the forefront of global best practice. This is not just an academic exercise. Adopting international standards for financial reporting will further strengthen the credibility and resilience of our public finances, and help us to unlock the benefits of Ireland's national assets"

Observations

27. The IFAC/CIPFA Index provides a useful high-level view of public sector reporting practices, but it may have some limitations. For example, the categories used in the Index do not necessarily capture the full detail of each jurisdiction's reporting framework, including the jurisdictional legislative setting, the extent of local modifications in jurisdictions applying IPSAS-based standards that are not 'pure' IPSAS, the extent to which individual public sector entities apply

[13] The report notes that the IPSASB resource "*Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities*" was heavily drawn upon in designing and planning the public sector's transition to accrual accounting".

the same suite of standards as the central government, what type of requirements are included in 'national standards: other', or the reasons for adopting a particular framework. Accordingly, the evidence should be treated as contextual rather than determinative.

28. Based on the tables above, the following observations can be made with respect to the period of 2020 and 2024:

    (a) **Accrual accounting in the public sector:** Several jurisdictions have moved to full accrual accounting in the public sector – or close to full accrual accounting through partial accrual accounting. We have not identified jurisdictions moving from accrual to cash accounting for the public sector.
    This indicates that the move away from cash accounting and towards accrual accounting continues around the world. We note that New Zealand has applied accrual accounting in the public sector for many years, and the international evidence from the IFAC/CIPFA Index supports the view that the ASF review should proceed on the basis that accrual accounting remains the appropriate reporting basis for New Zealand's Tier 1 and Tier 2 public sector PBEs. [14]

    (b) **What standards are used when jurisdictions transition to accrual accounting:** Of the 4 jurisdictions who moved from cash accounting to full or partial accrual accounting in the public sector, 2 jurisdictions chose to adopt IPSAS-based standards upon moving from cash to accrual, and the other 2 adopted national standards not referring to IPSAS, but they also did not adopt standards based on IFRS Accounting Standards. Of the 6 jurisdictions that moved from partial accrual basis to full accrual basis of accounting in the public sector, 5 adopted IPSAS-based standards and only 1 adopted national standards not referring to IPSAS – but none adopted IFRS Accounting Standards.
    This indicates that, while some jurisdictions prefer to use domestically-developed standards over IPSAS when transitioning from cash to accrual accounting, IPSAS is a more popular choice for such transition compared to IFRS Accounting Standards, which have not been chosen by entities transitioning from cash to accrual accounting between 2020 and 2024. This is consistent with the fact that IPSAS are developed specifically for the public sector, whereas IFRS Accounting Standards are not.

    (c) **Jurisdictions applying IPSAS in the public sector do not tend to move to IFRS:** We have not identified jurisdictions that moved away from IPSAS-based standards to national standards of IFRS Accounting Standards during 2020-2024. By contrast, 11 jurisdictions who (according the IFAC/CIPFA Index) previously applied national standards that do not refer to IPSAS in the public sector moved to IPSAS-based standards during 2020-2024. On this basis, it seems uncommon for jurisdictions to move away from IPSAS-based standards once these have been adopted for the public sector. Also, transition from IPSAS-based standards to standards based directly on IFRS Accounting Standards for the public sector has not been observed in recent times. This could partially be because it is challenging to move from one suite of standards to another one. However, this observation is also consistent with the fact that IPSAS are developed specifically for the public sector, whereas IFRS Accounting Standards are not. The observation above also indicates that IPSAS-based standards are becoming more commonly applied in public sectors around the world.

29. The choices made by other jurisdictions do not determine what is fit-for-purpose for New Zealand. However, they provide relevant contextual evidence for the ASF review because New

[14] We also note that the Australian public sector reports under the accrual basis (albeit using standards based on IFRS, rather than IPSAS).

Zealand's public sector financial reporting is assessed in an international context, including by users interested in fiscal transparency, accountability and New Zealand's sovereign debt profile. The observed international movement towards IPSAS-based frameworks supports the view that IPSAS remains a credible and widely accepted basis for public sector reporting. Any move away from IPSAS-based standards for public sector PBEs would therefore need to be supported by a clear New Zealand-specific rationale and considered against whether it would maintain the current level of international credibility, comparability and understandability.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Alignment between IPSAS and IFRS Accounting Standards**
Date:	1 October 2026
Prepared by:	Gali Slyuzberg
Through:	Leana van Heerden, Michelle Lombaard

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

Purpose[1]

1. As part of the review of the New Zealand Accounting Standards Framework (ASF), different framework options are being considered for Tier 1 and Tier 2 public benefit entities (PBEs). One of the possible framework options is to base standards for such entities on IFRS Accounting Standards, rather than IPSAS – i.e. to move to a 'sector neutral' approach.
2. The purpose of this paper is to inform the consideration of the option above, by providing a comparison between:
   (a) new IPSAS Standards that are yet to be incorporated into PBE Standards; and
   (b) IFRS Accounting Standards (if any) covering similar topics.
3. The analysis in the main body of this paper takes a future-focused perspective. That is, we have considered upcoming changes to New Zealand PBE Standards to align with new IPSAS Standards, and whether PBEs would be faced with similar changes and similar complexity if we move to a sector-neutral framework where Tier 1 and Tier 2 PBEs are required to report in accordance with requirements in IFRS Accounting Standards. Our comparison also considered differences between these new IPSAS and IFRS Accounting Standards, and the implications of these differences for a sector-neutral framework, bearing in mind the differences between PBEs and for-profit entities in terms of their purpose, transaction types and user needs.
4. Additionally, we also included Appendix 2, which provides a comparison between the full suite of IPSAS against IFRS Accounting Standards. This comparison has been included for completeness and to provide broader context on how the two frameworks align and differ. It also assists in identifying potential gaps that may arise under a sector-neutral approach and any areas where additional standards, guidance, or support materials may be required.

Recommendations

5. We recommend that the Board **NOTES** the content of this memo for purposes of the discussion on the framework options for Tier 1 and Tier 2 public sector and not-for-profit entities.

[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® Standards, IFRIC® Interpretations and IASB® papers).

Structure of this memo

6. This memo includes the following sections:

   (a) Background

   (b) Overview: PBE Standards vs NZ IFRS

   (c) Analysis: Alignment between key IPSAS that are 'on the horizon' in NZ with IFRS Accounting Standards

   (d) Observations

   (e) Appendix 1: Further detail – comparison of IPSAS that are 'on the horizon' domestically vs IFRS Accounting Standards

   (f) Appendix 2: Comparison between IPSAS and IFRS Accounting Standards (excluding recently-issued IPSAS covered in Appendix 1)

Background

The current ASF's multi-sector approach

7. A key element of the New Zealand ASF is its multi-sector, multi-standards approach. That is:

   (a) There are different suites of accounting standards for two distinct sectors: for-profit entities and public benefit entities (PBEs).

   (b) Standards for for-profit entities are based on IFRS Accounting Standards – whereby the requirements in IFRS Accounting Standards are not modified, other than by providing disclosure concessions or by adding New Zealand-specific disclosures.

   (c) Standards for PBEs in Tier 1 and Tier 2 are primarily based on IPSAS, with some modifications for enhanced local relevance in New Zealand, e.g. adding guidance or making changes to enhance the clarity of the requirements (to support consistent application by New Zealand PBEs), and adding guidance for application by not-for-profit PBEs (considering that IPSAS are developed for the public sector).

8. This multi-sector, multi-standards approach reflects a key objective of the ASF, which is to meet user needs. The ASF document refers to "A user-needs approach that recognises the different users and user-needs in the for-profit entity and the public benefit entity sectors".

9. Before the current ASF was introduced in 2012, a sector-neutral approach was taken to standard setting in New Zealand. This meant that for all reporting entities, other than those eligible to report in accordance with 'old GAAP', accounting standards were based on IFRS Accounting Standards (then called 'IFRS'), with PBE modifications being included within NZ IFRSs as deemed necessary.

10. In the years leading up to the development of the current ASF, concerns were arising in relation to the sector-neutral approach.

    (a) In 2009, the Accounting Standards Review Board (ASRB) – the XRB's predecessor – issued the Discussion Paper *Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting*. That Discussion Paper mentioned IFRS' predominant focus on the for-profit sector, and noted that "there is a growing consensus that NZ IFRS is not well suited to deal with the information needs of non-capital market users, especially those in the PBE sectors".

    (b) In 2009, the Auditor-General at the time had expressed concerns about the suitability of IFRS for the public sector, given IFRS's focus on for-profit entities and capital markets,

and lack of focus on public sector-specific matters (see the publication *The Auditor General's views on setting financial reporting standards for the public sector*).

11. Considering these concerns, the introduction of the current ASF in 2012 involved a shift away from the abovementioned sector-neutral suite of standards. The new multi-sector approach required selecting a basis, other than IFRS Accounting Standards, for developing standards for PBEs in the public and not-for-profit sectors. IPSAS was selected for this purpose.

Why and how are IPSAS currently used in developing PBE Standards

12. When the current ASF was developed, the only suite of international accounting standards other than IFRS Accounting Standards was IPSAS – and today, IPSAS remain the only suite of international standards developed specifically for the public sector. The New Zealand ASF document says that: *"The XRB [...] considers that IPSAS is a credible set of standards"*. The IPSASB follows due process in developing IPSAS, has a Conceptual Framework to underpin the development of standards, and is subject to independent governance by the Public Interest Committee (PIC).

13. While many IPSAS are based on IFRS Accounting Standards, the IPSASB modifies requirements in IFRS Accounting Standards for the public sector context. The IPSASB also develops requirements on topics that are not comprehensively addressed, or not addressed at all, in IFRS Accounting Standards. For example:

    (a) IPSAS 41 *Financial Instruments*, which is closely based on IFRS 9 *Financial Instruments*, includes additional IPSASB-developed requirements for concessionary loans, which are more common in the public sector space, while not being common in the for-profit space.

    (b) There is no equivalent in IFRS Accounting Standards to IPSAS 23 *Revenue from Non-Exchange Transactions*. Non-exchange transactions are common in the PBE space. While IPSAS 23 will be superseded by IPSAS 47 *Revenue*, IPSAS 47 includes not only requirements based on IFRS 15 *Revenue from Contracts with Customers*, for arrangements similar to contracts, but also requirements for revenue from other types of arrangements that are common in the public sector.

14. In developing an IPSAS based on an IFRS Accounting Standard, the IPSASB carefully considers whether modifications are needed for the public sector context. Sometimes these considerations result in very few differences between the IPSAS Standard and the related IFRS Accounting Standard, and other times there are more extensive modifications. However, the work to consider the need for modification would have occurred in both cases. The IPSASB's considerations – and the international input that the IPSASB receives to confirm its conclusions – mean that we do not need to 're-perform' these considerations when developing PBE Standards based on IPSAS under the ASF.

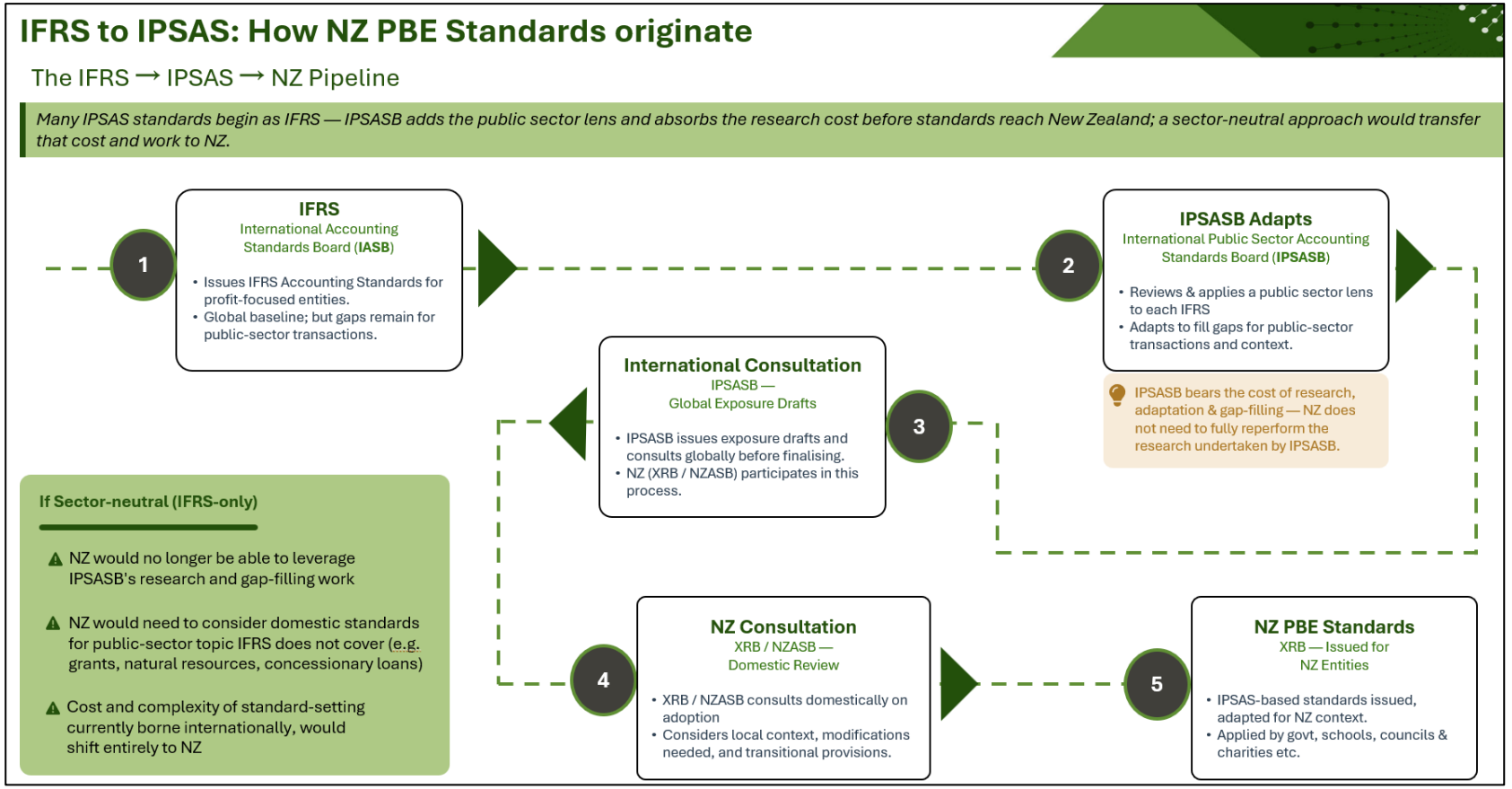
15. In the current ASF, IPSAS-based PBE Standards apply to both public sector PBEs and not-for-profit PBEs. Both types of PBEs have a primary objective of providing goods and services for community or social benefit, rather than aiming to generate a financial return to equity holders – which differentiate both types of PBE from for-profit entities, and implies different user needs.

16. As noted above, the NZASB can and does modify the requirements in IPSAS when developing PBE Standards based on IPSAS, to improve local relevance. In relatively rare cases, a new or amended IPSAS is not incorporated into PBE Standards, either because the requirements are seen as not appropriate or not relevant in New Zealand, or because the costs of adoption are expected to exceed the benefits. These considerations are set out in the *Policy Approach for Developing the Suite of PBE Standards*, known as the 'PBE Policy Approach'.

17. The NZASB consults with New Zealand stakeholders on IPSASB proposals to amend IPSAS and makes submissions to the IPSASB on significant projects. Once the IPSASB issues the final IPSAS or amendments to IPSAS, the NZASB applies the PBE Policy Approach – where there is a rebuttable presumption that a new or amended IPSAS will be incorporated into PBE Standards – and consults with New Zealand stakeholders on proposals to amend PBE Standards based on the new or amended IPSAS, potentially with modifications for the NZ context (see above).

18. In 2016, the Auditor-General at the time commented on the move to a multi-sector ASF and to PBE Standards in the publication *Improving financial reporting in the public sector*. While acknowledging some implementation challenges, the Auditor General noted that overall "these changes better position the public sector to report more meaningfully in the future", and "overall, the transition to the new PBE accounting standards represents a positive step".

19. The process of developing PBE Standards based on IPSAS is illustrated in the diagram below.



Review of the ASF

20. The review of the ASF involves, among other matters, reviewing different framework options for developing accounting standards for PBEs. This includes considering the option of going back to a 'sector-neutral' approach, whereby standards for PBEs (or a specific PBE sector, e.g. public sector PBEs) are directly based on IFRS Accounting Standards, rather than on IPSAS. This paper aims to inform the considerations on this topic.

Overview: PBE Standards vs NZ IFRS

21. The table below illustrates the differences between PBE Standards, which are primarily based on IPSAS, and NZ IFRS, which are directly based on IFRS Accounting Standards – including the different contexts in which they apply. Understanding these differences is important for considering the option of a 'sector-neutral' approach to developing standards for PBEs.

Table 1: PBE Standards vs NZ IFRS*

*AI generated, checked and edited by staff.

Area	PBE Standards	NZ IFRS
Primary focus	**Public benefit entities** delivering goods and services for community or social benefit. Primary users of financial reports: service recipients, resource providers and their representatives (e.g. taxpayers, ratepayers, donors, lender, creditors, etc.).	**For-profit entities** focused on generating returns for investors and capital market participants. Primary users of financial statements: investors, lenders and other creditors.
Standard-setting base	Primarily based on **International Public Sector Accounting Standards (IPSAS)**, with New Zealand modifications where needed.	Based directly on **IFRS Accounting Standards**, with limited New Zealand-specific disclosures or concessions and additional disclosures.
Transactions covered	Captures public sector and not-for-profit transactions such as non-exchange revenue and concessionary arrangements – in addition to more 'commercial' transactions such as financial instruments, sale of goods and services, etc.	Focus on commercial transactions such as contracts with customers, financial instruments and investor-focused reporting matters.
Measurement approach **(in addition to historical cost)**	Includes public sector-specific approaches where needed, such as guidance for the revaluation of specialised assets and impairment of non-cash-generating assets (Note: IPSAS have specific measurement requirements for assets held for operational capacity, this is yet to be incorporated into New Zealand PBE Standards).	Relies on market-based concepts such as fair value and assumptions of market participants.

22. **Observation:** The table above shows that IPSAS-based PBE Standards are designed for public benefit objectives and public sector-style transactions, whereas IFRS Accounting Standards on which NZ IFRS are directly based are designed for investor-focused, for-profit reporting. Moving PBEs to NZ IFRS would therefore create 'gaps' (i.e. areas where PBE transactions or user needs are not sufficiently addressed by IFRS), which the NZASB would need to consider addressing through domestic standard-setting. Some such gaps are highlighted in the next section.

Analysis: Alignment between key IPSAS that are 'on the horizon' in NZ with IFRS Accounting Standards

23. During the exploratory part of the ASF review project, some stakeholders have expressed concerns about the extent of upcoming changes to Tier 1 and Tier 2 PBE Standards arising from new IPSAS developments. In response, we have compared the new IPSAS Standards that are not yet incorporated into New Zealand PBE Standards against the IFRS Accounting Standards covering the same topics, if there are any. In our analysis, we considered whether similar requirements, changes, and implementation challenges would arise for PBEs under a sector-neutral approach, where standards for PBEs are based directly on IFRS Accounting Standards. We also considered whether the new IPSAS contain public sector-specific requirements that are different to IFRS Accounting Standards or cover topics not addressed by IFRS Accounting Standards, and the implications of such differences/gaps for a sector-neutral approach. This provides a future-focused assessment of the implications of retaining the current PBE Standards framework compared with adopting a sector-neutral model.

24. Our analysis is summarised in the table below. A more detailed version of this table is included in the Appendix 1 to this memo.

25. Please note: The table excludes IPSAS Standards that the NZASB already decided not to incorporate into PBE Standards, e.g. IPSAS 42 *Social Benefits* and IPSAS 49 *Retirement Benefit Plans*.

Table 2: IPSAS that are 'on the horizon' in NZ – alignment with IFRS Accounting Standards*

*AI generated, checked and edited by staff

Topic covered in IPSAS	Alignment with IFRS	Key difference	Implication for a sector-neutral approach
Revenue (IPSAS 47)	Partial	Broadly aligns with **IFRS 15** for binding arrangements, but also covers revenue from non-binding arrangements, e.g. tax revenue, grants.	PBEs will be subject to similar requirements under IFRS – but IFRS would need to be extended or supplemented to address public sector matters.
Transfer expenses (IPSAS 48)	Gap	No specific IFRS requirements for transfer expenses (e.g. grants, funding and donations paid).	We would need to consider developing requirements domestically.
Natural resources (IPSAS 51)	Gap	No specific IFRS guidance for resources held for conservation.	We would need to consider developing or adding guidance domestically.
Leases (IPSAS 43) – excluding IPSASB requirements for concessionary leases[2]	Aligned	Broadly aligned with **IFRS 16** with limited differences.	PBEs will be subject to similar requirements under IFRS.

[2] In December 2024, the NZASB considered the application of the PBE Policy Approach to the IPSASB pronouncement *Concessionary Leases and Other Arrangements Conveying Rights over Assets* (Amendments to IPSAS 43, IPSAS 47, and IPSAS 48). This IPSASB pronouncement requires lessees to recognise a right-of-use asset in a concessionary lease by measuring it based on market terms. The NZASB agreed not to commence a project to develop a PBE Standard using the IPSASB pronouncement as a starting point.

Topic covered in IPSAS	Alignment with IFRS	Key difference	Implication for a sector-neutral approach
Measurement (IPSAS 46)	Partial	Aligns with IFRS fair value requirements per **IFRS 13**, but introduces current operational value (COV) for public sector assets held for operational capacity.	We would need to consider domestically the accounting requirements for assets held for operational capacity.

26. The analysis in Table 2 is focused on IPSAS Standards that are 'on the horizon' in New Zealand because these are the most immediate source of potential change for Tier 1 and Tier 2 PBEs under the current PBE Standards framework. However, Appendix 2 provides a broader comparison across the full suite of IPSAS and IFRS Accounting Standards. That broader comparison shows a similar pattern: while many IPSAS are aligned or partially aligned with IFRS Accounting Standards, there are also recurring public sector- and PBE-specific differences, particularly in relation to non-exchange transactions, service potential, non-cash-generating assets, budget information, consolidation/control considerations and public sector combinations. This broader context reinforces that a sector-neutral approach would not simply involve replacing IPSAS-based requirements with IFRS Accounting Standards; it would also require the NZASB to consider where domestic PBE-specific modifications, guidance or exemptions may be needed, so that accounting standards result in appropriate reporting outcomes and to assist PBEs in applying accounting standards consistently.

Observations

27. Table 2 above, together with the broader comparison in Appendix 2, demonstrates that if we adopt a 'sector-neutral' approach where standards for PBEs are directly based on IFRS Accounting Standards, this would mean the following:

    (a) In some cases, PBEs will be subject to similar requirements as they would have been under our current multi-sector approach (because many IPSAS are aligned with IFRS Accounting Standards). This is evident both in the 'on the horizon' IPSAS analysed in Table 2 and in the broader comparison in Appendix 2.

    (b) In other cases, including several matters identified in Appendix 2, the NZASB would need to undertake domestic projects to consider and develop PBE-specific modifications to NZ IFRS – taking into account that IFRS Accounting Standards are developed for for-profit entities operating in capital markets, who tend not to engage in certain transactions that are common for PBEs and whose financial statements have primary users that are different to those of PBEs. While not every difference between PBEs and for-profit entities and not every public sector-specific IPSAS requirement would necessarily result in developing PBE-specific requirements and modifications to NZ IFRS under a 'sector neutral' approach, it would still be necessary to *consider the need* for such modifications. Otherwise, there is a risk that PBEs could face significant challenges and costs in applying unmodified NZ IFRS.[3]

28. By contrast, using IPSAS as a basis for developing PBE Standards has the following advantages:

    (a) IPSAS Standards are aligned with IFRS Accounting Standard to the extent appropriate;

[3] Such as the challenges noted in 2009 by the OAG at the time – see *The Auditor General's views on setting financial reporting standards for the public sector*.

(b) At the same time, IPSAS Standards reflect the IPSASB's consideration of public sector-specific matters – including additional guidance for the public sector, different requirements for public sector-specific transactions and/or requirements for public sector-specific transactions that are not covered in IFRS Accounting Standards – meaning that the NZASB does not need to discuss such considerations 'from scratch' and can rely on the international due process that IPSASB amendments were subject to (notwithstanding that the NZASB still needs to consider whether further amendments may be needed for the New Zealand context).

Appendix 1: Further detail – comparison of IPSAS that are 'on the horizon' domestically vs IFRS Accounting Standards

The table below lists IPSAS Standards that are 'on the horizon' from a New Zealand perspective (i.e. currently not included in the New Zealand suite of PBE Standards for Tier 1 and Tier 2 PBEs) – as well as the IFRS Accounting Standard that covers the same topic, if there is one. The table also includes comments on the implications of moving to a sector-neutral approach, which in this case relates to using IFRS Accounting Standards directly as the base for standards for PBEs.

Please note: The table excludes IPSAS Standards that the NZASB already decided not to include in PBE Standards, e.g. IPSAS 42 *Social Benefits* and IPSAS 49 *Retirement Benefit Plans*. It also excludes IPSAS 50 *Exploration for and Evaluation of Mineral Resources*, as PBE IPSAS 50 was already approved by the NZASB, pending gazetting.

IPSAS not currently in PBE Standards (i.e. on the horizon domestically)	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach, all IFRS based
IPSAS 47 *Revenue* Sets out the recognition, measurement, presentation and disclosure requirements for revenue transactions. [NZ status: PBE Standard currently under development]	**Partially:** • For revenue arising from binding arrangements, the five-step revenue recognition model in IPSAS 47 is aligned with **IFRS 15 *Revenue from Contracts with Customers***. However, the IFRS 15 requirements were modified for the public sector context. For example, the concept of 'compliance obligation' in IPSAS 47 is broader than 'performance obligation' in IFRS 15, and includes not only promises to transfer distinct goods or services to another party, but also promises to use resources internally for distinct goods or services. • IPSAS 47 also covers revenue from transactions without binding arrangements – which are not covered by IFRS 15. The requirements for such arrangements are more simplified compared to binding arrangements.	If we were to move to a sector-neutral approach, we would in any case need to bring the IFRS 15 requirements into PBE Standards. We would then need to consider whether to mandate the same requirements for revenue from transactions that do not arise from contracts or binding arrangements, noting that IFRS 15 was not developed with such transactions in mind – or to domestically develop requirements for such revenue transactions.

IPSAS not currently in PBE Standards (i.e. on the horizon domestically)	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach, all IFRS based
IPSAS 48 *Transfer Expenses* Sets out the recognition, measurement, presentation and disclosure requirements for 'transfer expenses'. These are expenses arising from transactions, other than taxes, in which an entity provides a good, service, or other asset to another entity or individual, without directly receiving any good, service, or other asset in return. [NZ status: PBE Standard currently under development]	**No** – there is no IFRS Accounting Standard that deals specifically with transfer expenses. Transfer expenses, such as grants, funding and donations provided by a reporting entity to others, are common in the public sector. The IPSASB issued IPSAS 48 to close the gap that existed in IPSAS literature with respect to these transactions.	If we move to a sector-neutral approach, we would need to consider developing domestic requirements to close the gap that the IPSASB identified in its literature.
IPSAS 51 *Tangible Natural Resources Held for Conservation* Sets out recognition, measurement, presentation and disclosure requirements for tangible natural resources that meet the definition and recognition criteria of an asset and are primarily held for conservation. The accounting requirements are aligned with those in IPSAS 45 for PP&E, but assets in the scope of IPSAS 51 need to be presented separately from PP&E and additional disclosure requirements apply. [NZ status: NZASB to decide whether to develop PBE Standard – staff recommend incorporating certain parts into PBE Standards as part of the Measurement project]	**No** – there is no specific IFRS Accounting Standard for natural resources held for conservation. The IPSASB sees IPSAS 51 as filling a gap in its literature, noting that many natural resources are not considered for financial reporting purposes, even though some of them meet the definition of an asset. However: At the Exposure Draft stage of IPSAS 51, the NZASB's comment letter to the IPSASB did not support a separate standard for tangible natural resources. Our comment letter noted the understanding that in New Zealand, land held for conservation is already accounted for as PP&E, and expressed the concerns that the costs of 'splitting out' land between PP&E standard and IPSAS 51 would not be justified by benefits. Nevertheless, we (staff) consider that there may be benefit in bringing certain guidance from IPSAS 51 into the new PP&E standard that is to be developed as part of the Measurement project (see above).	If we moved to a sector-neutral approach, the NZASB may still need to consider whether guidance on tangible natural resources held for conservation may be beneficial to add into the NZ IFRS on PP&E (NZ IAS 16 *Property, Plant and Equipment*) to assist in the accounting for natural resources.

IPSAS not currently in PBE Standards (i.e. on the horizon domestically)	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach, all IFRS based
IPSAS 43 *Leases* Requires the right-of-use (ROU) lessee accounting model for most leases – whereby a lessee recognise a ROU asset and a lease liability in the statement of financial position. [NZ status: PBE Standard project is paused, estimated recommencement in late 2026]	**Yes** – aligned with **IFRS 16 *Leases*** (*Except for IPSASB requirements to measure concessionary leases using market rentals, but the NZASB agreed not to introduce these requirements into PBE Standards.*)	If we move to a sector-neutral approach, PBEs would still be required to apply the right-of-use model under IFRS 16. We would need to develop domestically any PBE modifications if needed.
IPSAS 46 *Measurement* and related pronouncements (e.g. IPSAS 45 *Property, Plant and Equipment,* IPSAS 44 *Non-Current Assets Held for Sale and Discontinued Operations*) IPSAS 46 aligns the definition of 'fair value' in IPSAS with IFRS Accounting Standards, and introduces a new public sector-specific current value measurement basis: current operational value (COV). COV is an entry price that is entity-specific and based on the asset's existing use – whereas fair value is an exit price based on market participants' assumptions and the asset's highest and best use. IPSAS 45 requires revalued property, plant and equipment (PP&E) to be measured at COV if it is held for operational capacity (i.e. to delivery services, rather than to generate a financial return), or at fair value if it is held for financial capacity. COV has also been introduced into certain other IPSAS. [NZ status: NZASB agreed to develop PBE Standards – project estimated to commence in 2027]	**Partially:** • The fair value requirements in IPSAS 46 are aligned with **IFRS 13 Fair *Value Measurement***. • However: There is no equivalent to COV in IFRS Accounting Standards. COV was introduced due to concerns that the IFRS-aligned fair value requirements, with their focus on market participants' assumptions and the asset's highest and best use, would be challenging to apply to many public sector assets that are held for operational capacity, and may not result in useful information about such assets.	If we moved to a sector-neutral approach, the IFRS fair value requirements would in any case be introduced into PBE Standards. We would also need to consider the fair value-related concerns that led the IPSASB to develop COV, and to address these through domestic standard-setting work.

Appendix 2: Comparison between IPSAS and IFRS Accounting Standards (excluding recently-issued IPSAS covered in Appendix 1)

In reading this appendix, please note the following:

- In New Zealand, PBE Standards for Tier 1 and Tier 2 PBEs in the public and not-for-profit sectors are primarily based on IPSAS.
- The table in this appendix summarises, at a high level, the differences between IPSAS and IFRS Accounting Standards – and the implications of these differences for New Zealand PBEs and for the NZASB if we were to move to a sector-neutral approach where both for-profit entities and PBEs report in accordance with requirements in IFRS Accounting Standards.
- There are some differences between PBE Standards and IPSAS, but these are not mentioned in this table, except in cases where the NZASB decided not to incorporate an IPSAS into PBE Standards.
- As explained in the main body of this document, PBEs in the public sector (and not-for-profit sector) generally have a different purpose, different primary users and some differences in common transactions compared to for-profit entities. These differences are reflected in IPSAS, through the IPSASB's process of developing IPSAS based on IFRS Accounting Standards (albeit the IPSASB does not consider not-for-profit entities).
- The following general differences between IPSAS and IFRS Accounting Standards are not specifically mentioned in the table:
    - In IPSAS, recognition and measurement requirements for assets, liabilities, revenue and expenses are based on consideration of economic benefit *and/or service potential*. In IFRS Accounting Standards, the focus is on economic benefits.
    - IPSAS sometimes use different terminology to IFRS Accounting Standards.
- The table in this appendix does not include the IPSAS Standards listed below, as they were superseded by newer standards issued by the IPSASB, and we have taken a future-focused approach in our analysis in this paper. However, as the newer IPSAS Standards are yet to be incorporated into PBE Standards, the standards listed below continue to form the basis of certain PBE Standards in New Zealand.
    - **IPSAS 17** *Property, Plant and Equipment* – superseded by IPSAS 45 *Property, Plant and Equipment* in the IPSAS suite, but PBE IPSAS 17 is still part of the PBE Standards suite in New Zealand. The fair value measurement requirements in IPSAS 17 differ to IFRS Accounting Standards.
    - **IPSAS 9** *Revenue from Exchange Transactions*, **IPSAS 11** *Construction Contracts*, **IPSAS 23** *Revenue from Non-Exchange Transactions* – superseded by IPSAS 47 *Revenue* in the IPSAS suite, but PBE IPSAS 9, 11 and 23 are still part of the PBE Standards suite in New Zealand. IPSAS 9 and 11 are based on superseded versions of IFRS Accounting Standards on revenue (pre-IFRS 15), and as such they are not aligned with current IFRS Accounting Standards. There is no direct equivalent to IPSAS 23 in IFRS Accounting Standards.
    - **IPSAS 13** *Leases* – superseded by IPSAS 43 *Leases* in the IPSAS suite, but PBE IPSAS 13 is still part of the PBE Standards suite in New Zealand. This standard is based on an older version of an IFRS Accounting Standard (pre-IFRS 16), and as such it is not aligned with current IFRS Accounting Standards.

An overview of the information in the table is provided below:

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

Alignment	Number of standards	Standards
	13	IPSAS 2 *Cash Flow Statements*; IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors*; IPSAS 4 *The Effects of Changes in Foreign Exchange Rates*; IPSAS 10 *Financial Reporting in Hyperinflationary Economies*; IPSAS 14 *Events After the Reporting Date*; IPSAS 16 *Investment Property*; IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*; IPSAS 30 *Financial Instruments: Disclosures*; IPSAS 31 *Intangible Assets*; IPSAS 41 *Financial Instruments*; IPSAS 43 *Leases*; IPSAS 44 *Non-current Assets Held for Sale and Discontinued Operations*; IPSAS 50 *Exploration for and Evaluation of Mineral Resources*
	17	IPSAS 5 *Borrowing Costs*; IPSAS 12 *Inventories*; IPSAS 20 *Related Party Disclosures*; IPSAS 26 *Impairment of Cash-Generating Assets*; IPSAS 27 *Agriculture*; IPSAS 28 *Financial Instruments: Presentation*; IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*; IPSAS 34 *Separate Financial Statements*; IPSAS 35 *Consolidated Financial Statements*; IPSAS 36 *Investments in Associates and Joint Ventures*; IPSAS 37 *Joint Arrangements*; IPSAS 38 *Disclosure of Interests in Other Entities*; IPSAS 39 *Employee Benefits*; IPSAS 40 *Public Sector Combinations*; IPSAS 45 *Property, Plant and Equipment*; IPSAS 46 *Measurement*; IPSAS 47 *Revenue*
	8	IPSAS 1 *Presentation of Financial Statements*; IPSAS 18 *Segment Reporting*; IPSAS 21 *Impairment of Non-Cash-Generating Assets*; IPSAS 24 *Presentation of Budget Information in Financial Statements*; IPSAS 32 *Service Concession Arrangements: Grantor*; IPSAS 42 *Social Benefits*; IPSAS 48 *Transfer Expenses*; IPSAS 51 *Tangible Natural Resources Held for Conservation*

Please note: IPSAS 22 *Disclosure of Financial Information About the General Government Sector* is not currently applied in NZ, therefore not included in above considerations

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
IPSAS 1, Presentation of Financial Statements	**Currently not aligned, but the IPSASB proposes alignment** IPSAS 1 is aligned with IAS 1 *Presentation of Financial Statements*, which was superseded by IFRS 18 *Presentation and Disclosure in Financial Statements*. Unlike IFRS 18, IPSAS 1 does not require specific categories or subtotals in the statement of financial performance, does not include the enhanced guidance on the grouping of information that is in IFRS 18, and does not require disclosures on 'management-defined performance measures' (MPMs). However, the IPSASB is consulting on proposals to replace IPSAS 1 with a new standard based on IFRS 18, with modifications for the public sector context. The proposals include IFRS 18-based categories in the statement of financial performance and enhanced guidance on grouping of information in the primary financial statements and notes. However, the IPSASB proposes not to introduce MPM disclosure requirements into IPSAS.	If we moved to a sector-neutral approach, PBEs will need to consider the specific presentation and disclosure requirements introduced by IFRS 18, and some PBEs will need to change the presentation of their financial statements. Considering that IFRS 18 was developed for the private for-profit sector in mind, implementation could be challenging for PBEs. If the IPSASB proceeds with its proposals in the Consultation Paper *Presentation of Financial Statements*, PBEs would need to apply some of the IFRS 18-based requirements even under the current ASF's sector-based approach. However, in this case the requirements would be modified for the public sector context and be supported by public sector-specific guidance to be developed by the IPSASB through their international due process and through considerations from a public sector perspective. Under a sector neutral approach, the NZASB would need to consider developing public sector/PBE modifications domestically.
IPSAS 2, Cash Flow Statements	**Mostly aligned** with IAS 7 *Cash Flow Statements*.	Minimal impact – PBEs would apply similar requirements to what they currently apply
IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors	**Mostly aligned** with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.	Minimal impact – PBEs would apply similar requirements to what they currently apply
IPSAS 4, The Effects of Changes in Foreign Exchange Rates	**Mostly aligned** with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.	Minimal impact – PBEs would apply similar requirements to what they currently apply

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
IPSAS 5, Borrowing Costs	**Partially aligned** with IAS 23 *Borrowing Costs*. IAS 23 requires borrowing costs that are directly attributable to the acquisition, construction or production of a 'qualifying asset' to be capitalised as part of the asset's cost. By contrast, IPSAS 5 permits such costs to be either capitalised or expensed when incurred.	PBEs would need to capitalise borrowing costs that they would have previously expensed – noting that attribution of borrowing costs to specific assets can be challenging in the public sector. Alternatively, the NZASB would need to introduce the accounting policy choice that PBEs have under PBE IPAS 5 into NZ IAS 23. The IPSASB developed non-authoritative guidance to support entities that choose capitalise borrowing costs, but this guidance is not included in IFRS, so the NZASB would need to consider developing such guidance.
IPSAS 10, Financial Reporting in Hyperinflationary Economies	**Mostly aligned** with IAS 29 *Financial Reporting in Hyperinflationary Economies* – some guidance in IAS 29 is not in IPSAS 10, but IPSAS 10 contains additional illustrative examples that are not in IAS 29. *Did not provide detail as PBE IPSAS 10 has limited impact in NZ*	Minimal impact as New Zealand is not affected by hyperinflation
IPSAS 12, Inventories	**Partially aligned** with IAS 2 *Inventories*. IPSAS 12 contains specific requirements to: • Initially measure inventories acquired in a non-exchange transaction (e.g. donated inventory) at fair value or current operational value (public sector-specific measurement basis), depending on the purpose for which the inventory is held; and • Measure inventories held for distribution at no charge/for a nominal charge (or to be used in providing service at no charge/for a nominal charge) at the lower of cost or current operational value. By contrast, IAS 12 requires all inventory to be measured at the lower of cost and net realisable value. There are no specific initial measurement requirements for inventory received in non-exchange transactions, except that government grants may be initially recognised either at fair value or at a 'nominal amount'.	Under IAS 2, PBEs would be required to measure inventories held for distribution or provision of services at no charge/for a nominal charge at the lower of cost and net realisable value. This would cause such inventories to be measured at nil value or a very low amount, which would not faithfully reflect the inventory's service potential and would likely not result in useful information. To address this, the NZASB would need to consider developing accounting requirements for inventories held for distribution at no charge or a nominal charge, which is a common situation for PBEs. The NZASB would also need to consider developing requirements for inventories received in a non-exchange transaction, noting that while such transactions are not common in the for-profit sector, they common for some PBEs – and the lack of specific guidance for such situations and/or the flexibility to recognise government

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	As mentioned above, should the measurement project include all the suggested IPSASB changes, this will further depart from IFRS.	grants at a 'nominal amount' under IFRS Accounting Standards may not result in appropriate reporting outcomes for PBEs.
IPSAS 14, Events After the Reporting Date	**Mostly aligned** with IAS 10 *Events After the Reporting Period*. IPSAS 14 contains a specific requirement to exercise judgement when considering impacts on assets and liabilities in situations where the going concern assumption is no longer appropriate after the reporting period. No similar specific requirement in IAS 10.	Minimal impact – PBEs would apply similar requirements to what they currently apply
IPSAS 16, Investment Property	**Mostly aligned** with IAS 40 *Investment Property*. IPSAS 16 specifically requires investment properties received in a non-exchange transaction to be measured at fair value on initial recognition. No similar requirement in IAS 40.	The NZASB would need to consider adding requirements to recognise investment properties received in a non-exchange transaction. Such transactions are more common in the PBE sector compared to the for-profit sector – and the lack of specific guidance for such situations and/or the flexibility to recognise government grants at a 'nominal amount' under IFRS Accounting Standards may not result in appropriate reporting outcomes for PBEs.
IPSAS 18, Segment Reporting	**NZ PBE requirements not aligned with IFRS (IPSAS-IFRS comparison not relevant from NZ perspective)** IPSAS 18 is based on the old IASB standard IAS 14 *Segment Reporting* – which had been superseded by IFRS 8 *Segment Reporting*. When PBE Standards were first introduced in NZ, the NZASB decided not to incorporate IPSAS 18 into PBE Standards. Therefore, a comparison between IPSAS 18 and IFRS 8 is not relevant for this paper. However, it is worth noting that: • The requirements in IFRS 8 in the IFRS Accounting Standards suite are not aligned with current requirements in PBE Standards, where there are no segment reporting requirements. • The NZASB decided not to incorporate IPSAS 18 into PBE Standards because for some public sector entities, requirements in primary	PBEs would need to report segment information in accordance with IFRS 8, which is likely to raise similar cost/benefit concerns to those that resulted in IPSAS 18 being currently excluded from the PBE Standards suite. The NZASB would need to consider an exemption from IFRS 8, at least for public sector PBEs.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	legislation already cover similar topics to IPSAS 18, but there are differences between the two sets of requirements – and the cost of complying with IPSAS 18 in addition to the legislative requirements was not expected to be sufficiently justified by benefits.	
IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets	**Mostly aligned** with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. There are terminology differences, and the Implementation Guidance and Illustrative Examples accompanying IPSAS 19 have been modified for the public sector context.	Minimal changes – although the NZASB would need to consider developing public sector/PBE Implementation Guidance and Illustrative Examples, to assessing PBEs in applying the requirements consistently.
IPSAS 20, Related Party Disclosures	**Partially aligned** with IAS 24 *Related Party Disclosures*. IPSAS 20 exempts public sector entities from providing disclosures about related party transactions that would have occurred in a normal supplier or client/recipient relationship at 'arm's length' terms. This exemption recognises that public sector entities that are related parties, e.g. different government agencies within central government, may transact extensively which each other to achieve common objectives. Requiring all such transactions to be disclosed even when they are at 'arm's length' terms would lead to voluminous disclosures, and the costs to public sector entities are likely to outweigh the benefits to users. By contrast, NZ IAS 24 requires for-profit 'government-related entities' to disclose the nature and amount of individually significant related party transactions, and a quantitative or qualitative indication of the extent of related party transactions that are collectively significant.	Public sector PBEs will need to spend more effort on preparing related party disclosures, and for some public sector PBEs the volume of disclosures would increase. The additional costs may not be sufficiently justified by benefits to users from seeing voluminous disclosures about arm's length transactions between government agencies or other related parties within the government consolidated group. Alternatively, the NZASB would need to develop an exemption similar to the one in IPSAS/PBE Standards.
IPSAS 21, Impairment of Non-Cash-Generating Assets	**Not aligned** with IAS 36 *Impairment of Assets*, for public sector-specific reasons. Non-cash-generating assets are assets not held to generate a commercial return. Such assets are not common in the for-profit sector, but are common among public sector PBEs. In IFRS Accounting Standards, IAS 36 *Impairment of Assets* does not distinguish between cash-generating and non-cash generating assets,	Non-cash-generating assets are common in the PBE sector. If a PBE charges the public a minimal fee or no fee for services provided using the asset, and if the asset is specialised so that it can only be sold for a low price on the market, then the asset would be significantly impaired under the impairment requirements in IFRS Accounting Standards. The asset's carrying amount would not

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	noting that the latter type of asset is not common in the for-profit sector. Impairment testing for all assets in the standard's scope requires considering the discounted future cash flows to be generated from using the asset and/or the asset's fair value less costs to sell. By contrast, impairment testing in IPSAS 21 for non-cash-generating assets requires considering the asset's current operational value (i.e. the amount the entity would pay to acquire or produce the asset in its current condition, etc.), and/or the asset's fair value less costs to sell.	faithfully represent its service potential and would likely not result in useful information for users. The NZASB would need to consider developing impairment requirements for non-cash-generating assets held by PBEs.
IPSAS 22, Disclosure of Financial Information About the General Government Sector	**Not aligned** – there is no directly similar IFRS Accounting Standard. IPSAS 22 sets out disclosure requirements for those governments that elect to include information about the 'general government sector' – a concept used in statistical reporting – in their consolidated financial statements. Such requirements are not relevant for for-profit entities and do not form part of IFRS Accounting Standards. *Note: PBE IPSAS 22 forms part of NZ PBE Standards, but the NZ Government does not make the election mentioned above, therefore the standard is currently not applied in NZ.*	No impact, unless the NZ Government decides to include information on the 'general government sector' in the whole-of-government financial statements, in which case the NZASB would need to consider developing disclosure requirements in this area.
IPSAS 24, Presentation of Budget Information in Financial Statements *[Note: In NZ, requirements to present actual vs budget comparison are in PBE IPSAS 1]*	**Not aligned** – there is no directly similar IFRS Accounting Standard. In the public sector, entities are often required by legislation to publish their budgets, for which they are held accountable. IPSAS 24 requires public sector entities to include 'actual vs budget' comparisons in the financial statements, and to disclose explanation of material variances to budget. Note: IPSAS 24 itself is not incorporated into NZ PBE Standards, but PBE IPSAS 1 requires NZ PBEs that have published a budget to present a comparison of 'actual vs budget' and explain material variances.	Budgets and 'budget vs actual' comparisons are a key accountability mechanism in the PBE sector, particularly for public sector PBEs – and accountability is linked to the purpose of PBE general purpose financial reporting. Given the lack of requirements on this topic in IFRS Accounting Standards, the NZASB would need to consider developing requirements for presenting and disclosing comparisons against budgets in public sector PBEs' financial statements – so that this information would continue to be provided to users in a consistent manner.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
IPSAS 26, Impairment of Cash-Generating Assets	**Partially aligned** with IAS 36 *Impairment of Assets*. Unlike IAS 36, IPSAS 26 does not have a market capitalisation-related indicator of impairment. IPSAS 26 amends the definition of 'cash generating unit' in IAS 36 to specifically refer to generating a commercial return (as assets that are not held to generate a commercial return, i.e. non-cash-generating assets, are accounted for under a different standard). IPSAS 26 includes requirements for situations where a non-cash-generating asset contribute to cash-generating units, and for re-designating assets from cash-generating to non-cash-generating.	The NZASB would need to consider modifying the impairment requirements in IFRS Accounting Standards, to take into account that 'non-cash-generating assets' are common in the PBE sector (see above) – and to consider the interaction with the accounting for 'cash generating assets'.
IPSAS 27, Agriculture	**Partially aligned** with IAS 41 *Agriculture*. Both IAS 41 and IPSAS 27 set out accounting requirements for biological assets and agricultural produce relating to agricultural activity. However, the term 'agricultural activity' in IPSAS 27 is broader than in IAS 41 – so that IPSAS 27 also cover biological assets held for non-commercial purposes, i.e. biological assets held for distribution at no charge of for a nominal charge, or for conversion into agricultural produce to be distributed at no charge or for a nominal charge. Also, IPSAS 27 requires biological assets received in a non-exchange transaction (e.g. donated biological assets) to be measured at fair value on initial recognition. There is no similar requirement in IAS 41, except that IAS 21 requires government grants to be initially recognised either at fair value or at a 'nominal amount'.	The NZASB would need to consider developing requirements for the initial measurement of biological assets received in non-exchange transaction, and expanding the scope of NZ IAS 41 to include biological assets held for distribution at no/nominal charge and/or for conversion into agricultural produce to be distributed at no/nominal charge. These situations are likely to be more common in the PBE sector compared to the for-profit sector, and the lack of specific guidance for such situations and/or the flexibility to recognise government grants at a 'nominal amount' under IFRS Accounting Standards may not result in appropriate reporting outcomes for PBEs.
IPSAS 28, Financial Instruments: Presentation	**Partially aligned** with IAS 32 *Financial Instruments: Presentation*. IPSAS 28 contains additional authoritative application guidance to help public sector entities identify: • When an arrangement is, in substance, a contract (which is necessary for meeting the definition of a financial instrument); and • When assets and liabilities arising from non-exchange transactions constitute financial assets and financial liabilities.	The NZASB would need to consider developing application guidance for PBEs on identifying arrangements that are in substance contracts and when do assets and liabilities arising from exchange transactions constitute financial assets/liabilities – noting that PBE arrangements (particularly in the public sector) may take different legal form to those in the private for-profit sector, and that non-exchange arrangements are

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
		more common in the PBE sector compared to the for-profit sector. Otherwise, PBEs are likely to experience challenges when applying NZ IAS 31.
IPSAS 30, Financial Instruments: Disclosures	**Mostly aligned** with IFRS 7 *Financial Instruments: Disclosures*. IPSAS 30 contains additional disclosure requirements for concessionary loans (i.e. loans lent or borrowed at below market terms).	The NZASB would need to consider developing disclosure requirements for concessionary loans, noting that while such loans are not common in the for-profit sector, they are more common in the PBE sector, and information about such loans is likely to be useful to users.
IPSAS 31, Intangible Assets	**Mostly aligned** with IAS 38 *Intangible Assets*. IPSAS 31 requires intangible assets received in a non-exchange transaction (e.g. donated intangible assets) to be measured at fair value on initial recognition. By contrast, IAS 38 says that if an intangible asset was received through a government grant, the entity may choose to recognize the asset either at fair value or at a 'nominal amount'.	The NZASB would need to consider developing fair value measurement requirements on initial recognition for intangible assets received in a non-exchange transaction – a situation that is more common in the PBE sector while being uncommon in the for-profit sector. The lack of specific guidance for such situations and/or the flexibility to recognise government grants at a 'nominal amount' under IFRS Accounting Standards may not result in appropriate reporting outcomes for PBEs.
IPSAS 32, Service Concession Arrangements: Grantor	**Not aligned** – there is no directly similar IFRS Accounting Standard. In a service concession arrangement (SCA), an 'operator' uses its existing asset, or constructs/acquires an asset and uses it, to provide a public service on behalf of the 'grantor' for a specified period of time. The operator is compensated for these services. Examples of SCAs include 'private public partnerships' – for example, where a government (grantor) enters into an agreement with a private sector entity (operator) to construct and maintain a public road for a number of years, and the government either directly compensates the grantor, or allows the grantor to generate revenue from road tolls. In the IFRS Accounting Standards suite, IFRIC 12 *Service Concession Arrangements* sets out accounting requirements for SCAs from the	The NZASB would need to consider developing accounting requirements for PBEs that are grantors in a service concession arrangement (SCA) – noting that public sector PBEs that enter into SCAs such as private-public partnerships tend to be the grantor in the SCA. Lack of specific requirements and guidance in this area would mean that PBEs would need to incur costs and effort in determining an appropriate accounting treatment, and may lead to inconsistent accounting practice.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	perspective of the 'operator' entity. However, IFRS Accounting Standards do not specify accounting requirements for the 'grantor'. As public sector entities that enter into service concession arrangements are often the 'grantor', IPSAS 32 provides accounting requirements for grantors in service concession arrangements.	
IPSAS 33, First-time Adoption of Accrual Basis IPSAS *[Not incorporated into PBE Standards – rather, PBE Standards include PBE FRS 47 First-time Adoption of PBE Standards*	**NZ PBE requirements partially aligned with IFRS (IPSAS-IFRS comparison not relevant from NZ perspective).** When PBE Standards were first introduced in New Zealand, the NZASB decided not to incorporate IPSAS 33 into PBE Standards. Instead, the PBE Standards suite contains the domestic standard PBE FRS 47 *First-time Adoption of PBE Standards*. Therefore, a comparison between IPSAS 33 and IFRS 1 *First-time Adoption of International Financial Reporting Standards* is not relevant for this paper. However, it is worth noting that PBE FRS 47 is based on the for-profit standard NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards*, which is in turn based on IFRS 1. PBE FRS 47 contains additional PBE-specific transitional requirements relating to revenue from non-exchange transactions (e.g. appropriations, grants, donations) and to service concession arrangements from the grantor's perspective (see IPSAS 32 above) – which are not included in IFRS 1.	The NZASB would need to consider developing first-time adoption requirements for PBE-specific transactions not covered in IFRS Accounting Standards, e.g. revenue from non-exchange transactions and service concessions arrangements from the perspective of the grantor.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
IPSAS 34, Separate Financial Statements IPSAS 35, Consolidated Financial Statements IPSAS 36, Investments in Associates and Joint Ventures IPSAS 37, Joint Arrangements IPSAS 38, Disclosure of Interests in Other Entities	**Partially aligned** with the IFRS Accounting Standards on interests in other entities, i.e. IAS 27 *Separate Financial Statements*, IFRS 10 *Consolidated Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. Both IPSAS 35 and IFRS 10 define 'control' and require an entity to prepare consolidated financial statements that include all controlled entities (subsidiaries). However, the definition of 'control' in IFRS 10 refers to the power to affect *returns* from involvement with the other entity, whereas IPSAS 35 refers more broadly to the power to affect *financial and/or non-financial benefits* from involvement with the other entity. This reflects that in the public sector, control relationships can arise without financial investment, and the benefits to the controlling entity are often non-financial. IPSAS 35 also includes public sector guidance and examples on control in IPSAS 35, which is not in IFRS 10. This discussion is also relevant to IPSAS 34 and 36–38 and the related IFRS Accounting Standards mentioned above, which refer to the concept of control. In addition, IPSAS 34–38 refer to 'binding arrangements', which is broader than the term 'contractual arrangements' in the related IFRS Accounting Standards, considering that public sector entities may not always be able to enter into contracts.	Under the consolidation requirements in IFRS Accounting Standards, PBEs may need to change the way that they prepare consolidated financial statements and/or account for arrangements where they have joint control. For example, the IFRS requirements may result in some PBEs no longer consolidating certain entities that do not generate a financial return for the PBE, but where the PBE has the power to affect non-financial benefits arising from involvement with another entity, e.g. the power to direct the other entity to provide services that contribute towards achieving the PBE's public benefit objectives. Not treating such entities as controlled entities may not result in appropriate reporting outcomes. Also, the lack of public sector guidance could make it more challenging for PBEs to determine whether they have control, joint control or significant influence over another entity, which could lead to costs and inconsistent accounting practice. To address the above challenges, the NZASB would need to consider developing PBE modifications to the IFRS Accounting Standards on interests in other entities.
IPSAS 39, Employee Benefits	**Partially aligned** with IAS 19 *Employee Benefits*. • IPSAS 39 contains additional guidance for public sector bonus plans, which is not in IAS 19. • IAS 19 requires discounting post-employment benefit obligations using market yields on high-quality corporate bonds, whereas IPSAS 39 refers more broadly to reflecting the time value of money. • Under IPSAS 39, for some public sector entities, the accounting requirements for long-term disability payments are more comprehensive and complex than the requirements in IAS 19 for	The NZASB would need to consider modifying NZ IAS 19 to reflect the IPSASB's public sector modifications mentioned on the left, to appropriately reflect differences between the circumstances of public sector PBEs vs for-profit entities.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	such payments. This reflects that in the public sector, in certain areas of service provision such as the military, long-term disability benefits may be financially highly significant and the related actuarial gains or losses may be volatile.	
IPSAS 40, Public Sector Combinations	**Partially aligned** with IFRS 3 *Business Combinations*. IPSAS 40 sets out accounting requirements for two types of public sector combinations: acquisitions (where an entity gains control over an operation) and amalgamations (in which no party gains control, or there are other indicators that the combination is an amalgamation). The requirements for acquisitions in IPSAS 40 are aligned with IFRS 3, i.e. the acquirer recognises the acquiree's assets and liabilities generally at fair value, and the difference between the fair value of the net assets acquired and the consideration paid is recognised as goodwill. By contrast, IPSAS 40 requires amalgamations to be accounted for using the 'modified pooling of interest' method, i.e. combining the carrying amounts of the assets and liabilities of the amalgamating entities (under consistent accounting policies), and goodwill is not recognised. This reflects the difference in nature between acquisitions and amalgamations – including the fact that it may not be possible to identify an 'acquirer' in an amalgamation. Amalgamations are relatively more common in the public sector than the private for-profit sector. There is no specific guidance on amalgamations in IFRS Accounting Standards.	In a sector-neutral model based on IFRS Accounting Standards, PBEs' accounting for combinations that are acquisition would remain similar – but there would be no specific requirements or guidance for them to refer to when accounting for amalgamations, which are relatively more common in the PBE sector than the for-profit sector. To assist PBEs in accounting for amalgamations consistently, the NZASB would need to consider developing accounting requirements for amalgamations.
IPSAS 41, Financial Instruments	**Mostly aligned** with IFRS 9 *Financial Instruments*. IPSAS 41 includes additional specific requirements and guidance for concessionary loans (i.e. loans lent or borrowed at below market terms).	The NZASB would need to consider the development of requirements and guidance for concessionary loans, which are more prevalent in the public and not-for-profit sectors compared to the for-profit sector – to assist PBEs in applying the standards and avoid the risk of inconsistent accounting practice.

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
IPSAS 42, Social Benefits	**Not aligned** – no equivalent IFRS Accounting Standard. IPSAS 42 sets out accounting and disclosure requirements for expenses and liabilities relating to 'social benefits', i.e. cash transfers provided to specific individuals and/or households that meet eligibility criteria to mitigate the effect of social risks, which address the needs of society as a whole. Note: The NZASB agreed not to incorporate IPSAS 42 into PBE Standards, and instead proposed that social benefits be accounted for as transfer expenses, per the requirements in IPSAS 48 *Transfer Expenses*. See Appendix 1 – Transfer Expenses.	See Appendix 1 – Transfer Expenses
IPSAS 43, Leases	**Mostly aligned** with IFRS 16 Leases (excluding the requirements in IPSAS 43 relating to concessionary leases) – see Appendix 1	See Appendix 1
IPSAS 44, Non-current Assets Held for Sale and Discontinued Operations	**Mostly aligned** with IFRS 5 *Non-current assets Held for Sale and Discontinued Operations*. Additional fair value disclosure requirements.	
IPSAS 45, Property, Plant, and Equipment	**Partially aligned** – revalued PP&E assets held for financial capacity (i.e. to generate a financial return) are measured at fair value as aligned with IFRS Accounting Standards – but revalued PP&E assets held for operational capacity (i.e. primarily to provide services) are measured at current operational value. See Appendix 1 (Measurement)	See Appendix 1
IPSAS 46, Measurement	**Partially aligned** with IFRS 13 *Fair Value Measurement* – fair value requirements are aligned, but IPSAS 46 also includes 'current operational value' as a public sector specific current value measurement basis - See Appendix 1	See Appendix 1
IPSAS 47, Revenue	**Partially aligned** with IFRS 15 *Revenue from Contracts with Customers*, but covers a broader range of revenue transactions,	See Appendix 1

IPSAS	Aligned with an IFRS Accounting Standard?	Implications for moving to a 'sector neutral' approach (standards directly based on IFRS for all sectors)
	including non-binding arrangements with entities and individuals that are not 'customers' – See Appendix 1	
IPSAS 48, Transfer Expenses	**Not aligned** – See Appendix 1	See Appendix 1
IPSAS 49, Retirement Benefit Plans	*Comparison not relevant – we understand that retirement benefit plans are generally classified as for-profit entities for financial reporting purposes and already apply NZ IFRS. The NZASB decided not to incorporate IPSAS 49 into PBE Standards*	N/A
IPSAS 50, Exploration for and Evaluation of Mineral Resources	**Mostly aligned** with IFRS 6 *Exploration for and Evaluation of Mineral Resources*.	Minimal impact – PBEs would apply similar requirements to what they currently apply.
IPSAS 51, Tangible Natural Resources Held for Conservation	**Not aligned** – See Appendix 1	See Appendix 1

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Reporting requirements in Australia for public sector and private sector not-for-profit entities**
Date:	1 October 2026
Prepared by:	Gali Slyuzberg
Through:	Leana van Heerden, Michelle Lombaard

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

Purpose[1]

1. Our review of the New Zealand Accounting Standards Framework (ASF) involves considering possible alternative options in terms of developing accounting standards for public benefit entities (PBEs).

2. To inform this analysis, this memo provides a high-level overview of the reporting requirements in Australian Accounting Standards for public sector and private sector 'not-for-profit' entities (a term broadly similar to 'PBEs' in New Zealand) – focusing on those requirements that are different to, or additional to, the IFRS-based requirements in AAS. The memo is intended to help Board members understand what an Australia-aligned model could involve for New Zealand PBEs.

3. The key point for the Board is that Australia's model is sector-neutral in form, but it involves sector-specific modifications. A single IFRS-based suite applies across sectors, but that suite includes not-for-profit and public sector overlays to address differences between these sectors and the for-profit sector in terms of entity objectives, common transaction types and user needs. This means that an Australia-aligned option for New Zealand would not simply involve applying unmodified IFRS Accounting Standards to PBEs. It would require decisions about which Australian not-for-profit and public sector modifications should be adopted, adapted or replaced by New Zealand-specific requirements.

4. This paper was informed by discussions with AASB staff, and we are grateful for their input.

Recommendations

5. We recommend that the Board **NOTES** the information in this paper for the purpose of the discussion on PBE framework options for public sector and not-for-profit PBEs.

Structure of this memo

6. This memo has the following sections:

   (a) Background

   (b) AAS requirements for Tier 1 and Tier 2 public sector and private sector NFPs

[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® Standards, IFRIC® Interpretations and IASB® papers).

(c) AAS requirements for Tier 3 private sector NFPs

(d) Appendix 1: Broad types of entities identified in NZ and Australian accounting standards

(e) Appendix 2: AASB's approach to developing NFP-specific standards and modifications

(f) Appendix 3: What is the GFS and why is AASB 1049 aligned with GFS requirements?

(g) Appendix 4: Entities that are required to report in accordance with accounting standards – Australia and New Zealand

Background

7. Accounting standards in both New Zealand and Australia distinguish between (1) for-profit entities and (2) entities for whom generating profit is not the primary objective (whose primary objective is to provides goods and services for community or social benefit, etc.). The latter group is referred to as PBEs in New Zealand accounting standards, and as NFP entities in Australian accounting standards. While the definitions of these respective terms are not worded identically, their meanings are broadly similar, as shown in Appendix 1.

8. The primary objective of New Zealand PBEs and Australian NFP entities is different to the primary objective of for-profit entities. Also, the primary users of PBE/NFP financial statements are different to those of for-profit entities and therefore have different information needs. In addition, some transactions that are common among PBEs/NFPs are uncommon in the for-profit sector and vice versa.

9. The approach for addressing the abovementioned differences between PBEs/NFPs and for-profit entities in accounting standards differs between New Zealand and Australia. This is because the New Zealand ASF currently takes a multi-sector, multi-standards approach to developing accounting standards, whereas Australia takes a sector-neutral approach to standard setting. More information on these approaches is included in the table below.

Table 1: New Zealand ASF vs Australian ASF: approach to sectors

	New Zealand	Australia
Approach to setting standards	**Multi-sector approach**, involving **different suites of standards** for **two distinct sectors**: for-profit entities PBEs. **Multi-tier approach:** • For-profit: 2 tiers • PBE: 4 tiers	**Sector-neutral approach**, where similar transactions and events are accounted for in the same way regardless of whether they occur in the for-profit, public sector or NFP sectors. **Single suite of standards** for all sectors. **Multi-tier approach:** • For-profit: 2 tiers • NFP: 2 tiers for public sector, 3 tiers for private sector
Standards	**For profit entities: NZ IFRS** • International source: **IFRS Accounting Standards** **PBEs**: **PBE Standards** (Tier 1 and 2) • International source: **IPSAS** Tier 3 and Tier 4 PBEs apply locally developed simplified standards.	**For profit entities and NFPs**: **Australian Accounting Standards (AAS)** • International source: **IFRS Accounting Standards** Simplified locally-developed standard for Tier 3 private sector NFPs.

	New Zealand	Australia
For-profit entity requirements	• **Tier 1 for-profit entities** (entities with 'public accountability' as defined in XRB A1 *(aligned with IFRS definition, i.e. debt or equity instruments traded on public market, holding funds in fiduciary capacity, etc.)* - and 'large' for-profit public sector entities): ***NZ IFRS*** - Apply IFRS recognition, measurement, presentation and disclosure requirements, with additional NZ disclosures; Able to claim compliance with **IFRS Accounting Standards**. • **Tier 2 for-profit entities** (those not required to report in Tier 1): ***NZ IFRS RDR***, i.e. same recognition and measurement requirements as Tier 1, but with reduced disclosure requirements.	• **Tier 1 for-profit entities** (entities with 'public accountability' as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards - aligned with IFRS definition (see left-hand column)*): ***AAS*** – Apply **IFRS** recognition, measurement, presentation and disclosure requirements; Able to claim compliance with **IFRS Accounting Standards** [Except for superannuation entities] • **Tier 2 for-profit entities** (Those not required to report in Tier 1): ***AAS – Simplified Disclosures***: Same recognition and measurement as Tier 1, with reduced disclosure requirements as specified in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.
PBE/NFP requirements	*Both public sector PBEs and NFP PBEs* • **Tier 1 PBEs** (PBEs with expenses above $33million or 'public accountability): ***PBE Standards***, primarily based on **IPSAS**, with some modifications for the NZ context. • **Tier 2 PBEs** (PBEs with expenses of $33million or less and no 'public accountability', excluding those reporting in Tier 3 and 4): ***PBE Standards RDR*** - same recognition and measurement requirements as Tier 1, but with reduced disclosure requirements • **Tier 3 PBEs** (PBEs with expenses of $5million or less and no public accountability, excluding those reporting in Tier 4)**:** ***Tier 3 (PS) Standard and Tier 3 (NFP) Standard*** – simple-format accrual-based requirements • **Tier 4 PBEs** (PBEs with operating payments below $140,000 in at least one of the preceding	*Both public sector and private sector NFPs, unless stated otherwise* • **Tier 1 NFPs** (Commonwealth, State and Territory governments and local governments, other entities required by legislation/regulations to report in Tier 1): ***AAS*** – **IFRS** recognition and measurement requirements, with **NFP modifications** added to address NFP-specific issues, plus domestically-developed NFP-specific standards where NFP/public-sector-specific transactions not addressed by IFRS. Disclosure requirements generally aligned with IFRS with minimal NFP modifications. • **Tier 2 NFPs** (public and private sector that are not in Tier 1, and are not eligible for Tier 3): ***AAS – Simplified Disclosures***: Same recognition and measurement requirements as Tier 1, with reduced disclosure requirements as specified in AASB 1060.

	New Zealand	Australia
	periods whose governing legislation permits reporting under a non-GAAP standard)**:** ***Tier 4 (PS) Standard and Tier 4 (NFP) Standard*** – simple-format cash-based requirements	• **Tier 3 NFPs** (private sector only, no 'public accountability', legislation permits Tier 3): ***AASB 1061*** *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* – locally developed standard with simplified requirements (from 1 July 2029) ***No Tier 4***

10. As noted above, Australian Accounting Standards (AAS) are based on IFRS Accounting Standards (IFRS), but some AAS contain modifications for NFP entities in the public and/or private sector, and there are also Australian-specific AAS for NFPs in the public and/or private sector. In addition, AAS contain specific requirements for the Commonwealth, State and Territory governments, at a whole-of-government level, where certain accounting policy choices and certain aspects of presentation are required to be aligned with statistical reporting. While AAS are based on IFRS, Australian NFP entities in the public and private sectors do not state compliance with IFRS Accounting Standards (IFRS), but rather with AAS (or AAS – Simplified Disclosures for entities in Tier 2, i.e. the reduced disclosure regime), due to the NFP modifications to IFRS requirements.

11. This memo provides a high-level summary of the reporting requirements in AAS for public sector and private sector NFP entities – focusing on the modifications to IFRS-based requirements that the AASB made for these entities. This analysis aims to inform the Board's discussion on:

    (a) Sector-neutral options and/or Australia-aligned options for PBEs in Tier 1 and Tier 2; and

    (b) An Australia-aligned option for (private sector) NFP PBEs in Tier 3.

12. This memo is intended to support an initial understanding of the Australian model. It does not assess whether the Australian requirements produce better reporting outcomes than the current New Zealand PBE requirements, nor does it analyse implementation cost, legislative implications, regulator acceptance, education impacts or stakeholder appetite.

13. In reading this memo, please note the following:

    (a) In referring to requirements in AAS, this paper uses the term 'NFP' as defined in AASB 102 *Inventories* (and referred to in other AAS) – i.e. an entity whose principal objective is not the generation of profit, in either the public or private sector. This is broadly similar to the term 'PBE' in New Zealand. We also note that recent amendments to the AASB Conceptual Framework for Financial Reporting (via AASB 2026-2) specify that "among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as donors and other funders, taxpayers, lenders and other creditors, and investors), recipients of goods and services (such as beneficiaries, for example members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament)." This is similar the description of primary users of PBEs' financial statements in the New Zealand PBE Conceptual Framework (resource providers, service recipients and their representatives), which further suggests that the terms 'NFP' in AAS and 'PBE' in PBE Standards are broadly similar, and refer to similar types of entities.

(b) As a consequence of point (a) above, and based on our analysis in Appendix 4 in relation to entities that are mandated to report in accordance with AAS: In our understanding, the types of entities covered by the requirements in AAS for Tier 1 and Tier 2 NFPs are broadly similar to the types of entities covered by New Zealand PBE Standards for Tier 1 and Tier 2 PBEs. That is, we understand that that the combined Tier 1 and Tier 2 Australian NFP population and the combined Tier 1 and Tier 2 New Zealand PBE population both include public sector entities such as governments, individual government departments and agencies, local authorities (councils) and tertiary education institutions (although the Australian public sector population excludes schools as individual reporting entities) – and larger private sector NFPs such as registered charities and incorporated societies/associations. However, the respective sizes of these populations, the size of the entities themselves and the distribution of entities between Tier 1 and Tier 2 may be different between the two countries, considering the following:

i. Difference in the size of Australia's and New Zealand's populations and economies, which affects the size of the public and not-for-profit sectors in the respective countries;

ii. Differences between statutory reporting requirements in primary legislation for public sector and private sector NFPs/PBEs (Australian primary legislation is not explored in detail in this paper); and

iii. Difference between tier eligibility criteria for NFPs/PBEs – tier eligibility criteria for New Zealand PBEs are based on entity size (and public accountability as defined in XRB A1), whereas for Australian NFPs, AAS do not set out tier criteria based on size. Rather, AASB 1053 requires the Commonwealth Government and State and Local Governments to report in Tier 1, whereas all other public sector NFPs and all private sector NFPs are permitted to report in Tier 2 (although in practice some may be required to reporting in Tier 1 by legislation/regulations outside of AAS). However, as this paper considers requirements for Tier 1 and Tier 2 NFP entities together, the difference in the distribution of entities between Tier 1 and Tier 2 in Australia vs New Zealand are not considered crucial for the analysis in this paper.

(c) The Australian Tier 3 Standard for NFPs applies to private sector NFPs such as charities that are not 'publicly accountable' and are permitted by legislation to report in accordance with Tier 3, subject to regulators' decisions. Eligibility for Tier 3 in both Australia and New Zealand requires a lack of 'public accountability' as defined in the respective standards suites, but in New Zealand there is also an explicit tier size threshold set out in the standards XRB A1 (entities must have expenses of NZ $5 million or less) – whereas the size of Australian entities that are eligible to report in Tier 3 would be determined by Australian regulators. Therefore, while the types of entities covered by the Australian Tier 3 standard are similar to those covered by the New Zealand Tier 3 (NFP) Standard, the size of entities applying these respective standards may be different.

(d) The examples of NFP modifications to IFRS-based AAS in this paper are not an exhaustive list of NFP modifications in AAS.

14. It is also worth noting the approach of the AASB to develop NFP modifications to IFRS-based requirements and NFP-specific standards, which is summarised in Appendix 2 of this memo, based on the AASB's NFP Standard Setting Framework. A high-level summary of our understanding of this approach is included below.

(a) When the IASB issues a new or amended IFRS Accounting Standard (IFRS), the AASB develops equivalent amendments to AAS, so that for-profit entities with 'public accountability' complying with AAS can also assert compliance with IFRS. At this point, NFP requirements are also considered. As a starting point, the AASB assumes that IFRS are an appropriate base for NFP accounting requirements, and transaction neutrality (i.e. accounting for like transactions in a like manner across sectors) is important.

(b) However, the AASB considers NFP-specific modifications to IFRS requirements or NFP-specific standards when there are justifications to do so – for example (not exhaustive):

i. If NFP reporting would otherwise not meet the objective of financial reporting or the qualitative characteristics per the Conceptual Framework.

ii. If the application of IFRS requirements to NFP-specific transactions/circumstances would result in financial statements not reflecting economic reality (e.g. assets received for a consideration significantly below fair value are generally required to be recognised at fair value, rather than being recognised at cost as per IFRS).

iii. If the costs of applying certain IFRS requirements outweigh the benefits for NFPs (e.g. the cost of adopting the IFRS 18 presentation categories in the statement of financial performance was seen to outweigh the benefits for public sector NFPs).

These issues need to be sufficiently significant to warrant the development of NFP-specific modifications or standards.

15. NFP modifications may involve amending IFRS recognition and measurement requirements, amending, deleting or adding disclosures, adding transitional relief for NFPs, and/or adding specific NFP-specific guidance to support consistent application of IFRS-based or NFP-specific accounting requirements among NFP entities. Modifications may apply to public sector NFPs only, or private sector NFPs only, or all NFPs in Tier 1 and Tier 2. Modifications are made via 'Aus' paragraph within the AAS, Australia-specific integral appendices in AAS, or non-integral guidance/illustrative examples accompanying the AAS. In developing NFP-specific modifications and standards, AASB considers the coherence of the AAS suite. IPSASB requirements are also considered when developing NFP-specific modifications and standards.

16. Please note: Similarly to the current New Zealand ASF, the Australian ASF also has a 'reduced disclosure regime' for entities in Tier 2. Disclosure concessions for Tier 2 Australian for-profit and NFPs in the public sector and private sectors NFPs are provided via AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The analysis of NFP requirements below focuses on key differences between recognition, measurement and some presentation requirements in AAS for NFPs as compared to for-profit entities, and does not cover Tier 2 disclosure concessions for NFPs as contained in AASB 1060.

AAS requirements for Tier 1 and Tier 2 public sector and private sector NFPs

17. The table below summarises the requirements in Australian Accounting Standards (AAS) for Tier 1 and Tier 2 NFPs in the public and private sectors – including some key NFP modifications to IFRS-based requirements, based on our understanding and discussion with AASB staff. Please note that that this is a high-level analysis only, and the examples of modifications are not exhaustive. A full list of NFP modifications to IFRS-based requirements in AAS has recently been published and is available here. This table focuses on Tier 1 and 2 Australian NFPs only – Tier 3 Australian NFPs are covered in a separate section.

Table 2: Requirements in AAS for Tier 1 and 2 public and private sector NFPs

[1] IFRS base
The single suite of AAS applies to both for-profit and NFP entities in the public and private sectors. That suite is based on IFRS Accounting Standards. Therefore, Australian Tier 1 and Tier 2 NFP entities in the public and private sector are generally required to apply IFRS-based recognition, measurement, presentation and disclosure requirements. However, AAS also include NFP-specific requirements that are additional and/or different to IFRS requirements (see below).
[2] NFP overlay
Some AAS contain specific requirements for NFPs, which are additional and/or different to the IFRS-based requirements. Some examples are mentioned below, noting that some of these requirements apply to all NFPs (public and private sector), while others apply only to public sector NFPs entities (or public sector entities in general). **Examples of modifications to IFRS-based AAS for NFPs in the public and/or private sector (not an exhaustive list):** • **AASB 13 *Fair Value Measurement* [based on IFRS 13]**: Includes public sector NFP-specific requirements for non-financial assets that are not held primarily to generate net cash inflows, e.g. when considering 'highest and best use', alternatives to current use are considered only in limited circumstances. There is also public sector NFP-specific implementation guidance to assist public sector NFPs in applying the cost approach in measuring the fair value of such assets. • **AASB 15 *Revenue from Contracts with Customers* [based on IFRS 15]**: Licences issued by NFP public sector licensors are included in the standard's scope, regardless of whether they are contracts with customers, but revenue from such licences is exempt from the IFRS 15-based 'five-step model' when certain conditions apply. AASB 15 also specifies that for NFP entities, revenue from contracts that are unenforceable or not sufficiently specific is outside the scope of this standard – rather, the requirements of AASB 1058 should be considered (see below). • **AASB 16 *Leases* [based on IFRS 16]**: NFP lessees may elect to measure a right-of-use asset at fair value (instead of cost) on initial recognition, when the terms are significantly below-market, principally to enable the NFP lessee to further its objectives. • **AASB 17 *Insurance Contracts* [based on IFRS 17]**: Contains specific requirements for public sector insurers, similar to those in PBE IFRS 17 *Insurance Contracts* in NZ.

[2] NFP overlay (continued)

- **AASB 102 *Inventories* [based on IAS 12]:** NFP-specific requirements to measure inventory on initial recognition at 'current replacement cost' (rather than the cost of purchase, etc.), if the consideration for those inventories is significantly less than fair value, principally to enable the NFP to further its objectives. Also, for inventories held for distribution, NFP entities are required to measure such inventories after initial recognition at cost, adjusted when applicable for any loss of service potential (rather than at the lower of cost and net realisable value).
- **AASB 116 *Property, Plant and Equipment* [based on IAS 16]**: NFP-specific requirements to measure the cost of PP&E on initial recognition at fair value, if the consideration to acquire the asset was significantly less than fair value, principally to enable the NFP to further its objectives. Also, for NFP entities, revaluation increases and decreases are accounted for on a class-by-class basis, rather than asset-by-asset.
- ***[Not yet effective]* AASB 18 *Presentation and Disclosure in Financial Statements* [based on IFRS 18]**: Effective for NFP entities for periods beginning on or after 1 January 2028, which is one year later than for-profit entities. The AASB has recently issued AASB 2026-4 *Amendments to Australian Accounting Standards – Application of AASB 18 and AASB 107 by Superannuation and Not-for-Profit Entities and Operating Cash Flow Reconciliation*, to provide relief for public sector NFP entities (except universities) not to use IFRS 18-based categories in the income statement and will not be required to provide disclosures on management-defined performance measures. The AASB is the process of developing application guidance to assist private sector NFP and universities in applying the new income statement categorisation requirements.

Examples of Australian-specific standards that apply to NFPs in the public and/or private sector:

The following are examples of Australia-specific AAS for which there is no equivalent IFRS Accounting Standards (note: AASB 1049 is covered separately):

- **AASB 1058 *Income of Not-for-Profit Entities***: NFP-specific revenue recognition requirements for transactions where the consideration is significantly less than fair value, principally to enable the NFP to further its objectives. Revenue is recognised immediately on recognising the asset received – except for transfers enabling the entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, where revenue is recognised as and when the entity satisfies its obligations under the transfer.
- **AASB 1059 *Service Concession Arrangements: Grantors***: Specific requirements for public sector entities for the recognition and measurement of service concession assets and related liabilities. AASB 1059 is based on IPSAS 32 *Service Concession Arrangements: Grantor*. It also includes an Australian-specific requirement to recognise identifiable intangible assets as service concession assets when the grantor controls the asset as set out in the standard, even if the intangible asset recognition criteria in AASB 138 are not met – and revaluation without reference to an active market is permitted.
- **Other Australian-specific standards for public sector entities**: AASB 1004 *Contributions*; AASB 1050 *Administered Items;* AASB 1051 *Land Under Roads*; AASB 1052 *Disaggregated Disclosures*; AASB 1055 *Budgetary Reporting*; INT 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities*.
- **Other Australian-specific standards:** AASB 1054 *Australian Additional Disclosures;* AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*; INT 1003 *Australian Petroleum Resource Rent Tax*; INT 1030 *Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods;* INT 1031 *Accounting for the Goods and Services Tax;* INT 1055 *Accounting for Road Earthworks*.

[3] Government overlay – for whole-of-government financial statements only – AASB 1049

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* applies to the whole-of-government and 'General Government Sector' financial statements of Australian Commonwealth, State and Territory governments (it does not apply to individual government departments or agencies, and it does not apply to local authorities). AASB 1049 reduce the accounting policy choices available to governments, and includes specific presentation requirements for 'primary' ('face') financial statements and additional disclosure requirements – as aligned with the Australian Bureau of Statistics publications *Australian System of Government Finance Statistics: Concepts, Sources and Methods, 2005* (GFS). The GFS is based on the International Monetary Fund's Government Finance Statistics Manual 2014 (GFSM). Australian Commonwealth, State and Territory governments are required to prepare whole-of-government financial statements in accordance with AAS, and they also report GFS-aligned budget information. More information on the GFS/GFSM is included in Appendix 3 of this paper.

Reduced accounting policy choices in whole-of-government financial statements – examples:

- For assets recognised under AASB 116 *Property, Plant and Equipment*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* that are also considered assets under the GFS: Governments are required to select the revaluation model/fair value model for these assets, consistent with the requirement in the GFS – unless fair value cannot be measured reliably, and noting that the 'active market restriction' in AASB 138 applies to fair value measurement of intangible assets.
- Statement of cash flows: The direct method must be selected – and dividends paid by entities in the public non-financial corporation (PNFC) sector and public financial corporation (PFC) sector must be classified as financing cash flows.

Specific presentation requirements for whole-of-government financial statements

We understand that the government-specific presentation requirements below do not change any recognition and measurement requirements.

- Statement of financial position:
  - Needs to be presented in accordance with GFS requirements, to the extent that these do not conflict with the requirements in AASB 101*. For example, adding GFS sub-headings like financial/non-financial assets and produced/non-produced assets, and grouping assets accordingly.
- Net worth must be presented (assets less liabilities and shares/contributed capital).
- Statement of comprehensive income:
  - Items need to be classified as 'transactions' or 'other economic flows', consistent with the principles of the GFS.
  - The following 'key fiscal aggregates' must be presented: net operating balance, total change in net worth (before transactions with owners in their capacity as owners if applicable), net lending/borrowing (and its derivation from net operating balance).
- Statement of cash flows
  - Separate presentation of cash flows relating to investing in financial assets for policy purposes and for liquidity management purposes (per GFS).
  - Cash surplus/deficit and its derivation needs to be presented (key fiscal aggregate).

[3] Government overlay – for whole-of-government financial statements only – AASB 1049 (continued)

Additional disclosures in whole-of-government financial statements:

In addition to disclosures required by other AAS, AASB 1049 requires additional disclosures in whole-of-governments financial statements, e.g.:

- A reconciliation or explanation of differences between presented key fiscal aggregates measured in accordance with GAAP vs GFS.
- Functional information: Assets and expenses attributed to each broad function of the government, as identified in the GFS.
- Sector information: For the general government sector (GGS), PNFC sector and PFC sector (sectors defined based on GFS):
  - a statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows
  - a reconciliation or explanation of differences between key fiscal aggregates measured in accordance with GAAP vs GFS.

Specific requirements in General Government Sector (GGS) financial statements:

- Governments are required to present GSS financial statements, either together with the whole-of-government financial statements or separately.
- Only entities that are considered part of the GSS per the GFS are consolidated in the GGS financial statements. There are specific measurement requirements for GGS equity investments in government-controlled entities within the PNFC or PFC sectors.
- Similar specific presentation requirements as for the whole-of-government financial statements, and additional disclosure requirements.

** For NFP entities, AASB 18 will supersede AASB 101 from 1 January 2028. AASB 2026-4 amended AASB 18 to specify that governments will be required to present all line items required by AASB 1049 in the primary financial statements, and will not be required to use IFRS 18-based categories in the income statement.*

Implications for sector-neutral and Australia-aligned framework considerations

18. The framework options analyses for New Zealand public sector and NFP PBEs considered as part of the ASF review include options based on sector neutrality and/or alignment with Australian requirements. The information above about NFP modifications in the IFRS-based AAS suite suggests the following implications for these framework options:

    (a) Australia's approach to developing accounting standards can be described as 'sector neutral', in the sense that there is a single suite of AAS primarily based on IFRS Accounting Standards that applies to all sectors.

    (b) However, with the AAS suite, the reporting requirements for Australian NFP entities in the public and private sector are not completely the same as those for for-profit entities. The differences between for-profit entities and NFPs – in terms of their objectives, common transactions and user needs – are still reflected in the AAS suite through NFP-specific and public sector-specific modifications.

    (c) This suggests that, if the XRB was to move to a sector-neutral approach for the ASF, where standards for PBEs are directly based on IFRS Accounting Standards, the XRB would still need to consider modifications to IFRS requirements for public sector and NFP PBEs. These could either be the same as the modifications in Australia, or different modifications. In considering modifications to a 'sector-neutral' suite, it would be important to consider the following:

        i. There are some differences between the NFP/public sector requirements in AAS and the requirements in IPSAS and PBE Standards (although there are also similarities). These differences would need to be considered when deciding on how to modify a sector neutral IFRS-based suite of standards, if the ASF was to change to a sector-neutral approach. For example, it may be that in some cases, IPSAS-based or domestically-developed public sector/NFP requirements that currently exist in New Zealand may be more suitable for New Zealand public sector and NFP PBEs and their users as compared to the requirements in AAS.

        ii. On the other hand, the coherence of the suite would also need to be taken into account when considering modifications to a sector-neutral IFRS-based suite. For example, if the XRB was to adopt some AAS-based NFP modifications and some IPSAS/PBE Standards-based modifications in a sector-neutral suite, careful consideration would be required to ensure the coherence of the suite.

    (d) As noted in the agenda paper on *Alignment between IPSAS and IFRS Accounting Standards*, in developing PBE Standards based on IPSAS, the XRB and our stakeholders are able to benefit from the IPSASB's consideration of public sector-specific matters and its international due process. If we were to adopt a sector-neutral approach to developing standards for Tier 1 and Tier 2 PBEs, this specific benefit would no longer apply, but an Australia-aligned approach would mean that we would be able to benefit from the AASB's consideration of NFP-specific matters and its due process. Nevertheless, New Zealand-specific modifications may still need to be considered both under an IPSAS-based approach and an Australia-aligned approach.

    (e) Regarding AASB 1049 for whole-of-government financial statements, which is aligned with certain GFSM requirements: We note that the New Zealand Government reports statistical information in accordance with the IMF's GFSM, in additional to preparing whole-of-government financial statements under IPSAS-based PBE Standards. We understand that in Australia, a key reason for harmonising AASB 1049 with GFSM

requirements was confusion among Australian stakeholders in relation to governments' financial statements vs governments' GFSM-aligned reporting (see Appendix 3). However, we are not aware of confusion or concerns in this area among New Zealand stakeholders. We also note that while AASB 1049 is harmonised with some GFSM requirements, there are still differences between recognition and measurement requirements for governments under AAS as compared to statistical reporting under GFS. Issuing a standard like AASB 1049 in New Zealand would not avoid the need for separate reporting under GFSM for statistical purposes. In addition, we note that under PBE IPSAS 22 *Disclosure of Information about the General Government Sector*, the New Zealand Government has the option to include information about the 'general government sector' – a GFSM concept (see Appendix 3) – in its 'whole of government' financial statements in accordance with the requirements in that standard. However, the Governments does not elect to present information on the 'general governments sector' in its general purpose financial statements. This indicates that there does not seem to be an urgent need for adopting a standard based on AASB 1049 for whole-of-government financial statements in New Zealand. Even if there was such a need at whole-of-government level, this does not necessarily indicate that an Australia-aligned or sector-neutral approach to developing standard for all public sector and/or not-for-profit PBEs should be adopted in New Zealand.

AAS requirements for Tier 3 private sector NFPs

19. In April 2026, the AASB introduced a simplified financial reporting framework for Tier 3 NFP entities in the private sector – for the preparation of general purpose financial statements.

20. Private sector NFP entities are eligible to report in Tier 3 if they:

    (a) Do not have 'public accountability' as defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*[2]; and

    (b) Are not prohibited by legislation or their constituting documents or any documents to report in Tier 3.

    However, eligibility is also subject to regulators' decisions, i.e. regulators have the power to require entities that meet the criteria above to apply Tier 1 or Tier 2 requirements.

21. Private sector NFP entities that are eligible to report in Tier 3 (and do not choose to opt up to a higher tier) are required to apply:

    (a) AASB 1061 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* – the new principal standard for Tier 3 private sector NFPs, which sets out simplified reporting requirements compared to Tier 1 and Tier 2; and

    (b) Certain specific Tier 2 standards listed in paragraph 1.5 of AASB 1061 – for more complex transactions and balances that do not tend to be common among Tier 3 entities. For example, Tier 3 entities are required to apply the following standards:

    - AASB 9 *Financial Instruments* for certain 'non-basic' financial instruments, e.g. acquired equity instruments other than ordinary shares or non-convertible preference shares, derivative financial instruments (but hedge accounting is not allowed);
    - AASB 141 *Agriculture* for biological assets other than 'bearer plants';

[2] The definition of 'public accountability in AASB 1053 *Application of Tiers of Australian Accounting Standards* is broadly aligned with the IASB's definition. Appendix A of AASB 1053 states that an entity 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 [...]; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses".

- AASB 119 *Employee Benefits* for liabilities from defined benefit plans.

22. Some of the high-level differences between the IFRS-based requirements for Tier 1 and Tier 2 Australian entities and AASB 1061 are listed below. This is not an exhaustive list.

Table 3 AASB 1061 requirements for Australian Tier 3 NFPs in the private sector

Area	AASB 1061 - Key simplifications compared to Tier 1 and Tier 2
Consolidation	• Consolidation is optional for Tier 3 entities that have controlled entities/subsidiaries. Specifically: Tier 3 entities may elect to classify their investments in subsidiaries, investments in associates and interests in joint arrangements as investments in 'notable relationship entities'. A Tier 3 entity that makes this election does not prepare consolidated financial statements.
Leases	• Lessees and lessors recognise lease payments as an expense/income over the lease term for all leases.
Deferred tax	• No IFRS-based deferred tax requirements.
'Basic' financial instruments	*Covers cash, debtors, bonds, term deposits, units in managed investment schemes, creditors, loans:* • Concessionary loans and debtors are initially measured at the transaction price, no need to determine fair value. • Simplified subsequent measurement: Financial assets and liabilities are measured at cost, except that financial assets held to generate income and a capital return (e.g. shares) are measured at fair value. • Interest is measured at the contractual interest rate, not 'effective interest rate'.
Donated assets	• Initial recognition: Not required to recognise at fair value - policy choice to measure at cost (i.e. nil if received at no cost) or fair value.
Revenue	• Simplified revenue recognition: Revenue is recognised at the same time as the related asset received –except that revenue is deferred if the entity and transferor have a 'common understanding' that the entity will perform in a particular manner resulting in transferring or using up assets.

23. In developing AASB 1061, the AASB had regard to the reporting requirements in the XRB's Tier 3 (NFP) Standard. However, there are some differences between the two standards. The New Zealand Tier 3 (NFP) Standard is shorter, and its requirements are generally more simplified and less detailed than AASB 1061. However, AASB 1061 effectively allows Tier 3 entities not to prepare consolidated financial statements when they have controlled entities – a concession which is not available in the New Zealand Tier 3 Standard. Refer to the agenda item on Tier 3 and Tier 4 for high-level considerations on whether AASB 1061 could be a viable framework for Tier 3 NFP entities in New Zealand.

Appendix 1: Broad types of entities identified in NZ and Australian accounting standards

The table below illustrates that:

- The term 'for-profit entity' has a broadly similar meaning in Australia and New Zealand.
- The term 'PBE' in New Zealand and 'NFP' in Australia have a broadly similar meaning.

New Zealand ASF	Australian ASF
Public benefit entities (**PBEs**): *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* [XRB A1, para 6] PBEs include: • **public sector PBEs** • **not-for-profit (NFP) PBEs** (private sector)	**Not-for-profit entities** (**NFPs**): *Entities whose **principal objective** is **not the generation of profit*** [AASB 12, para Aus6.1] NFPs include: • **public sector NFPs** • **private sector NFPs**
For-profit entities: *Entities other than PBEs (see below)* Include private and public sector for-profit entities	**For-profit entities:** *Entities other than NFPs (see below)* Include private and public sector for-profit entities

Appendix 2: AASB's approach to developing NFP-specific standards and modifications

The table below provides a summary of the AASB's approach to developing NFP-specific standards and NFP modifications to IFRS-based AAS, based on the *AASB Not-for-Profit Entity Standard-Setting Framework* (2021).

Objective of NFP standard setting framework

• Use IFRS Accounting Standards and the principle of transaction neutrality as a starting point – and make modifications or develop additional guidance to address:
  ○ Australian legislation, user needs or public interest issues relevant to external reporting;
  ○ NFP-specific issues that are of such prevalence and magnitude that the objective and qualitative characteristics of reporting per the Conceptual Framework would otherwise not be met.
  ○ Undue cost or effort considerations.
• Develop Australian-specific Standards, Interpretations or guidance to address specific NFP issues not appropriately dealt with in existing IFRS Accounting Standards ('IFRS').

What triggers the AASB to consider NFP-specific standards or modifications?
Triggers include: • The issuance of a new IFRS or a new IPSAS; • A post-implementation review indicating the need for NFP-specific standards/modifications; • Australian constituents raising the need for NFP-specific standards or modifications; • Issuance of Australian legislation with financial reporting implications, or recommendations from parliamentary enquiries; or • Evidence of undue or widespread diversity in accounting practice among NFPs.
What reasons might justify NFP-specific standards or modifications?
Some of the justifications are listed below (not a full list): • Without modifications, financial reporting under IFRS requirements would inadequately reflect the objectives and qualitative characteristics of NFP financial reporting per the Conceptual Framework; • User of NFP financial statements, which include resources providers and service recipients, require additional disclosures compared to what is required in IFRS; • The existence of prevalent NFP-specific issues means that without modifications, NFP financial statements would not reflect economic reality (e.g. with respect to assets transferred to NFPs for significantly less than fair value); • The costs of preparing or disclosing information outweighs the benefits (e.g. for governments, the costs of applying certain IFRS-based presentation requirements that are different to those required by the Government Finance Statistics Manual 2014 are seen to outweigh the benefits). Issues need to be sufficiently significant to warrant NFP-specific modifications or standards, considering the following: • The qualitative and quantitative significance of the transaction, event or circumstance to entities' financial statements, the relevant sector (public sector or private sector NFP), the Australian economy as a whole, and the likely effect on users' decision-making abilities. • Whether the modification will increase or decrease consistency between IFRS, AAS and the Conceptual Framework • The cost of the specific change, relative to the benefits. Minimising differences between requirements for for-profit entities and for NFPs is considered beneficial.

How are NFP-specific standards or modifications developed?

Having decided that a NFP-specific standard, modifications to IFRS requirements or additional guidance may be required, the AASB decided whether to modify the IFRS-based AAS or to develop a separate AAS.

In making this decision, the AASB considers:

- The extent of the issue arising from Australia-specific legislation, user needs or public interest, and the importance of addressing these issues to maintain confidence in the Australian economy;
- The impact of international perception of AAS complying with IFRS Accounting Standards; and
- The extent of modifications required.

Modifications to NFP standards may include:

- Amendments to the scope of an IFRS-based standard – to maintain consistency with existing NFP standards, reduce legislative conflicts and avoid undue cost/effort
- Amendments to IFRS-based recognition and measurement requirements via 'Aus' paragraphs in the IFRS-based standard – to better meet the objectives and qualitative characteristics of NFP entity financial reporting, avoid undue cost/effort and/or maintain coherence with existing NFP requirements.
- Amendment or deletion of IFRS-based disclosure requirements – for similar reasons as above.
- Adding transitional relief for NFPs – to give NFPs enough time to address implementation issues.
- Adding specific guidance, generally in an appendix or additional material – to improve ease of use and consistency of application

In developing NFP-specific standards and modifications, the AASB considers:

- Consistency with existing AAS and the Conceptual Framework; and
- Other relevant authoritative material, including IPSASB's standards, guidance and Conceptual Framework – as well as pronouncements of the NZASB and other national standard setters.

The AASB follows its usual due process in developing NFP-specific standards and modifications, including consultation on exposure drafts.

Appendix 3: What is the GFS and why is AASB 1049 aligned with GFS requirements?

The Australian GFS is based on the Government Finance Statistics Manual 2014 (GFSM) issued by the International Monetary Fund (IMF). The IMF website explains that its GFSM is an international statistical reporting framework "aimed at helping national authorities to strengthen their capacity to formulate fiscal policy and monitor fiscal developments". The GFSM itself notes that its primary purpose is to provide a comprehensive conceptual and reporting framework suitable for analysing and evaluating a government's fiscal policy. For this purpose, the GFSM presents information based on 'flows' that change 'stock' positions to obtain key macroeconomic balances. The Australian Department of Finance website further explains that the Australian GFS "focuses on the size of the public sector, its contribution to aggregate demand, investment, and saving and provides for cross-country comparison. It is not an accounting system but is a statistical framework that uses data from a government's accounting system".

As can be seen from the explanation above, the purpose of GFSM/GFS reporting is different to the purpose of general purpose financial statements, which is to provide information on an entity's asset, liabilities, equity, revenue, expenses and cash flows that is useful to primary users (service providers and resource recipients in the public and private NFP sectors) for accountability and decision-making purposes.

Also, some of the concepts and requirements in GFSM/GFS reporting are different to those in IFRS-based (and IPSAS-based) accounting standards. For example:

- The GFSM/GFS distinguishes between 'flows' that are 'transactions' and 'other economic flows'. Revaluations and remeasurements of assets and liabilities are treated in GFSM/GFS as 'other economic flows' and do not impact surplus or deficit. This is different to the requirements in IFRS-based (and IPSAS-based) accounting standards, where some remeasurements of assets and liabilities are recognised in surplus/deficit, e.g. remeasurement of financial instruments and investment properties at fair value, impairment of non-financial assets in certain circumstances, etc.
- Provisions are generally not recognised in GFS/GFSM reporting, as liabilities are generally recognised only if they give rise to a corresponding asset and if there is a legally enforceable claim against the entity by a counterparty – which is different to the requirements in IFRS (and IPSAS).

The GFSM/GFS also specifically distinguishes between the following sectors of government for the purpose of providing information about these sectors:

- The 'general government sector', which includes 'government units' that fulfil the functions of government (e.g. departments) and 'non-profit institutions' controlled by the government that are 'non-market producers' (e.g. government-controlled agencies that provides services at no charge or for at economically insignificant prices); and
- 'Public corporations', which provide financial services (e.g. state-owned banks) or goods/non-financial services at economically significant prices.

We also understand that in GFSM/GFS reporting, local authorities (councils) are included within the 'general government sector' – whereas under the consolidation and control requirements in IFRS (and IPSAS), in jurisdiction like Australia (and New Zealand), councils are not considered to be controlled by central/state/territory governments and are not consolidated into governments' financial statements.

Based on the website of the Australian Department of Finance and discussion with AASB staff, we understand that the Australian Commonwealth Government and State and Territory governments have an agreement to prepare budget papers (that are tabled at parliament) based on the Uniform

Presentation Framework, which aligns with GFS classifications and terminology – as well as being required to report in accordance with accounting standards issued by the AASB. Before AASB 1049 was issued, the difference between governments' financial statements prepared under AAS and GFS-aligned budget reporting created confusion among users of these reports. To address this, AASB 1049 includes presentation and disclosure requirements aligned with GFS, while retaining the IFRS-based requirements and measurement requirements (as adjusted for public sector NFP modifications) in other AAS – as well as requirements to disclose reconciliations between AAS-based amounts and related GFS amounts.

Appendix 4: Entities that are required to report in accordance with accounting standards – Australia and New Zealand

The tables below summarises the statutory financial reporting obligations that apply to selected types of entities in the two jurisdictions.

NFP/PBE sector requirements in Australia and New Zealand

Please note: This is not an exhaustive list of all types of entities and all existing legislation/regulations that govern financial reporting. New Zealand tier size thresholds are explained in the main body of the paper.

Entity type (NFP/PBE)	Australia – mandated to report under AAS?	New Zealand – mandated to report in accordance with XRB standards?
Public sector		
Central government(s) at whole-of-government level	• Australian (Commonwealth) Government – **Yes** *(Public Governance, Performance and Accountability Act 2013 (Cth))* • State and Territory Governments – **Yes** (*Various State- and Territory-level legislation, e.g. New South Wales – Government Sector Finance Act 2018*) Tier 1, required in AASB 1053	NZ Government – **Yes** *(Public Finance Act 1989)* Tier 1
Government departments and agencies	• Commonwealth departments and agencies (Commonwealth entities) – **Yes** *(Public Governance, Performance and Accountability Act 2013 (Cth))* • State and Territory departments and agencies – **Yes** (*Various State- and Territory-level legislation, e.g. New South Wales – Government Sector Finance Act 2018*) Could be Tier 1 or Tier 2, depending on Treasury/Finance Department instructions	• Government departments – **Yes** *(Public Finance Act 1989)* • Crown Entities – **Yes** *(Crown Entities Act 2004)* Likely Tier 1 or Tier 2, depending on size per XRB A1 tier thresholds
Local authorities (councils)	Councils – **Yes** (*Various State- and Territory-level legislation/regulations, e.g. Western Australia – Local Government (Financial Management) Regulations 1996*) Tier 1, required in AASB 1053	Councils – **Yes** (*Local Government Act 2002*) Likely Tier 1 or Tier 2, depending on size per XRB A1 tier thresholds (and if a councils issues bonds, then Tier 1 is required)
Tertiary/higher education institutions	Universities – **Yes** *(Higher Education Support Act 2003)* Could be Tier 1 or Tier 2, but we understand that the Commonwealth Department of Education generally requires reporting in Tier 1 as a condition of funding	Universities – **Yes** *(Crown Entities Act 2004)* Likely Tier 1 or Tier 2, depending on size per XRB A1 tier thresholds

Entity type (NFP/PBE)	Australia – mandated to report under AAS?	New Zealand – mandated to report in accordance with XRB standards?
Public sector - continued		
Schools	Schools – **No** (i.e. not as individual entities) We understand that schools are generally not separate reporting entities for the purpose of reporting under AAS. Rather, the assets, liabilities, revenue and expenses of schools are included in the AAS-compliant financial statements of the relevant State or Territory education department. Tier: N/A	Schools – **Yes** *(Education and Training Act 2020)* In terms of eligibility under XRB A1, the majority of schools are eligible to report in Tier 3 – but the Ministry of Education currently requires these schools to report in Tier 2.
Private sector/New Zealand's NFP sector		
Registered charities	• Medium and large charities (revenue above AUD 500,000) – **Yes**[3] • Small charities: **No** (submitting annual financial report is optional – also, can choose to report under cash accounting) *See The Australian Charity and Not-for-profit Commission (ACNC) website:* ○ *Overview of registered charity reporting requirements* ○ *Charity size thresholds for the purpose of reporting requirements* ○ *Annual financial report requirements – optional for small charities* Could be Tier 1 or Tier 2 (or in the newly established Tier 3 – eligibility criteria to be determined by regulators) – AAS do not set tier size thresholds.	All registered charities – **Yes** *(Charities Act 2005)* But: smaller charities are eligible for simplified standards – as shown below (XRB A1 tier size thresholds) • Annual expenses above $33m: Tier 1 – full PBE Standards • Annual expenses between $5m and $33m: Tier 2 – PBE Standards RDR • Annual expenses $5m or less: Tier 3 – Tier 3 (NFP) Standard (simplified accrual-based requirements) • Operating payments below $140,000 in at least one of previous periods: Tier 4 (NFP) Standard, which is cash accounting
Incorporated societies (NZ)/Incorporated associations (Aus)	Reporting obligations for incorporated associations are determined under state and territory associations incorporation legislation. Thresholds differ by jurisdiction, although several major jurisdictions (including Victoria, Western Australia and New south Wales) now use revenue thresholds broadly aligned with the ACNC charity size thresholds of AUD $500,000 – see above.	All incorporated societies other than 'small societies' as defined in legislation: **Yes** Note: Smaller incorporated societies are eligible for simpler standards – see the charities section. Small societies (societies that are not donee organisations and have operating payments and total

[3] We understand that some registered charities, including medium and large ones, can currently choose to prepare special purpose financial reports, instead of general purpose financial reports in accordance with AAS (ACNC website). However, 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.

Entity type (NFP/PBE)	Australia – mandated to report under AAS?	New Zealand – mandated to report in accordance with XRB standards?
	See the following sources: *Western Australia: Department of Local Government, Industry Regulation and Safety website;* *New South Wales: NSW Government website* *Victoria: Consumer Affairs Victoria website* Tiers: see charities above	assets below $50,000 in the two preceding accounting periods) – **No** *Incorporated Societies Act 2022* Tiers: see charities above

For-profit sector requirements in Australia and New Zealand

Note: Not an exhaustive list of for-profit entity types and legislation (for example, for-profit public sector entities are not covered in this table)

Australian – entities mandated to report in accordance with AAS	New Zealand – entities mandated to report in accordance with XRB standards (GAAP)
Section 292 of the Corporations Act 2001 requires the following types of for-profit entities to prepare financial statements: • **Disclosing entities** • **Unlisted public companies** • **Registered schemes** • **'Large' proprietary companies** [see thresholds below] • **Small foreign-controlled proprietary companies** not applying *ASIC Corporations (Foreign-Controlled Company Reports) Instrument 2017/204* • **Small proprietary companies undertaking crowd-sourced funding.** Section 296 then requires these financial statements to be prepared in accordance with AAS. Listed and unlisted disclosing entities, as well as registered managed investment schemes, must report in Tier 1. Unlisted public companies (excluding companies limited by guarantee because these are usually not-for-profit entities) and proprietary companies may report in Tier 2 if they are not 'publicly accountable' as defined in AAS.	**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 reporting entities with higher level of public accountability must report in Tier 1 **'Large' companies** The Financial Reporting Act 2013 defines 'large' company (over $66m assets or $33m revenue, for last two accounting period), and 'large overseas company' (over $22m assets or $11m revenue for last 2 accounting periods) (Section 45). Certain other companies as per the Companies Act: • Companies that are public entities • Company with 10 or more shareholders unless opted out of compliance with the GAAP; and • Company with fewer than 10 shareholders but opted into compliance with GAAP Large companies that are not FMC reporting entities and are not otherwise 'publicly accountable' as defined in XRB A1 may report in Tier 2

Note: Thresholds for 'large' proprietary companies (Australia):

The 2026 Federal Budget is currently consulting on doubling the revenue and asset thresholds:

Criteria	Current thresholds	Federal Budget 2026 proposed thresholds
Consolidated revenue for the financial year	$50 million or more	$100 million
Consolidated gross assets at the end of the financial year	$25 million or more	$50 million
Group employees at the end of the financial year	100 or more	No change

A company is classified as 'large' if it meets two of three thresholds.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Review of the Accounting Standards Framework (ASF) – Public benefit entity (PBE) sector overview**
Date:	1 October 2026
Prepared by:	Raveen Kaur
Inputs by:	Tereza Bublikova; Alex Stainer
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose

1. The purpose of this paper is to provide the Board with the common Public Benefit Entity (**PBE**) context and assessment approach for the public sector (**PS**) and not-for-profit (**NFP**) Tier 1–4 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 PS and NFP Tiers 1–4 reporting framework review papers; and

   (b) Provide **FEEDBACK** on whether any additional common matters should be considered across this paper relating to the PS and NFP reporting framework assessments.

Scope and how to read this suite of papers

3. This paper supports the separate PS and NFP Tier 1–4 framework papers by setting out the PBE-specific context, common considerations and assessment approach that apply across the PBE workstream.

4. Broader ASF history, structure, legislative environment, project scope and overall methodology are addressed in the **Background and Context paper**. Public accountability for tier allocation is considered separately in the **Definition of Public Accountability paper**. References in this paper to accountability relationships concern broader PBE reporting considerations and should not be read as references to public accountability as defined in XRB A1 unless stated otherwise.

5. The underlying PS and NFP Tier 1–4 papers apply this common approach to their respective reporting populations and framework options. Detailed population evidence, tier-specific option analysis and proposed consultation matters are addressed in those papers rather than repeated here.

Contents of paper

Background: Current PBE reporting framework

Distinctive characteristics of PBE reporting

Common PBE framework and distinct reporting populations

Common areas of analysis

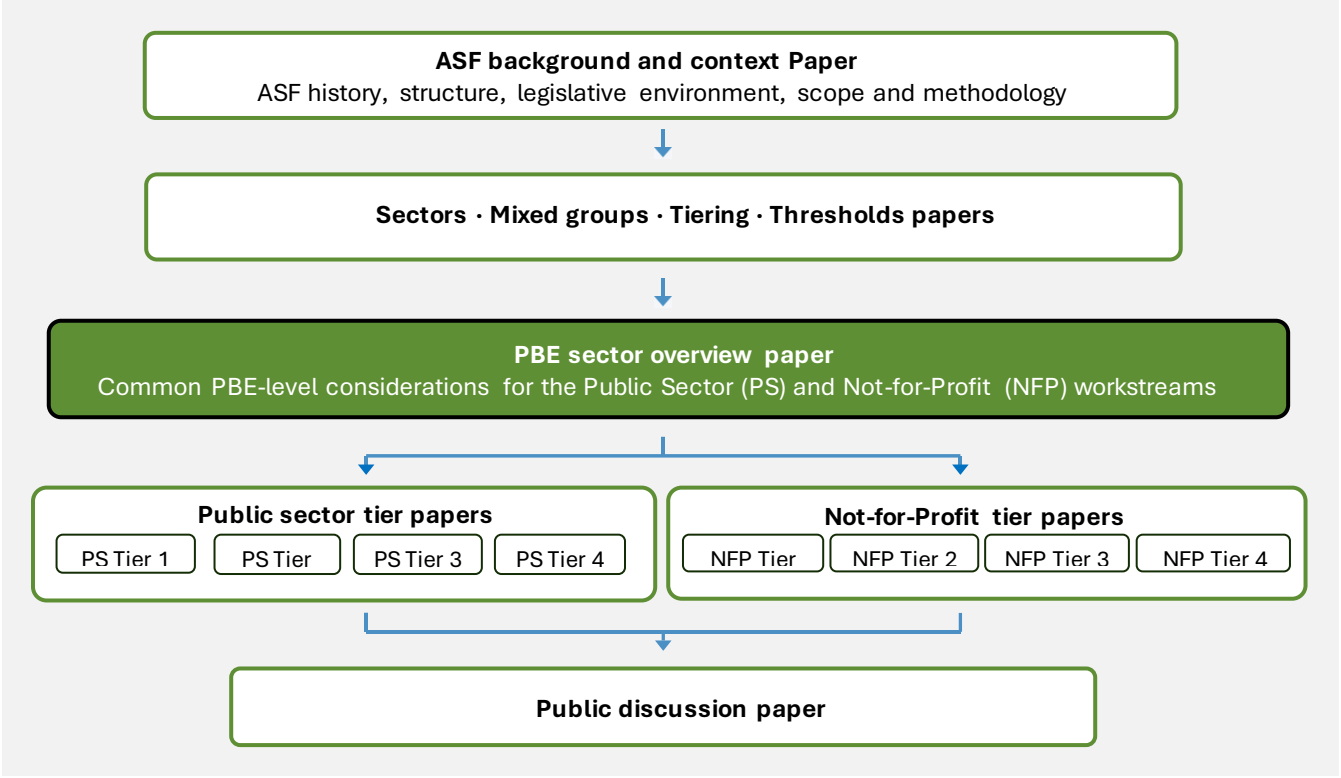
Structure and assessment approach for the PS and NFP tier papers

Question for the Board

6. Although the ASF comprises separate for-profit and PBE sectors, the ASF review considers the for-profit, PS and NFP reporting populations separately. Further information on the sector structure and review approach is provided in the **Background and Context paper**.

7. Figure 1 shows how this overview paper relates to the PS and NFP Tier 1–4 papers and where it fits into the broader ASF review suite.

Figure 1: Structure of PBE papers in the ASF review



Background: Current PBE reporting framework

8. PBEs comprise public sector (**PS**) PBEs and not-for-profit (**NFP**) PBEs. Figure 2 summarises the PBE reporting populations in accordance with the definitions in XRB A1, paragraph 6.

Figure 2: PBE reporting populations

Public Benefit Entities (PBEs)

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.

PS PBEs	NFP PBEs
PBEs that are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.	PBEs that are not PS PBEs. *Examples may include charities, incorporated societies and other not-for-profit entities*[1]

9. The four-tier PBE framework forms part of the ASF's sector-based and multi-tier structure. In establishing that structure, the Board considered user needs and cost-benefit considerations, including the significant variation in the size of PBEs required to prepare general purpose financial reports.[2] Further background on the wider ASF structure is provided in the **Background and Context paper**.

Figure 3: Current PBE reporting standards

Tier	Standards for PBEs (PS and NFPs)
Tier 1	**PBE Standards** *Primarily IPSAS-based*
Tier 2	**PBE Standards RDR** *Primarily IPSAS-based with reduced disclosures*
Tier 3*	**Domestic PBE reporting standards** *Accrual-based simple format reporting*
Tier 4*	**Domestic PBE reporting standards** *Cash-based simple format reporting*

Basis of the Tier 1 and Tier 2 PBE Standards

10. Tier 1 and Tier 2 PBEs apply PBE Standards that are based primarily on International Public Sector Accounting Standards (**IPSAS Standards**). In establishing the current framework, the Board considered IPSAS Standards to provide a better basis for PBE reporting than IFRS Accounting Standards because IPSAS Standards are developed for public sector users, including service recipients and a wider group of resource providers, whereas IFRS Accounting Standards are developed primarily for users in capital markets.[3] It was considered that user needs in the NFP PBE sector were broadly similar to user needs in the public sector, rather than with the needs of capital market participants in the for-profit sector.

11. The PBE Standards are described as primarily IPSAS-based because the suite also includes standards based on IFRS Accounting Standards and domestic standards for matters not addressed by IPSAS Standards, as well as some modifications of IPSAS Standards to ensure that they are fit-for-purpose in New Zealand, for example by enhancing the clarity of requirements, adding requirements and guidance for not-for-profit PBEs, etc. For more information on reasons to modify requirements in IPSAS, refer to the External Reporting Boards (**XRB**) PBE Policy Approach to Developing the Suite of PBE Standards.[4] Further information on IPSAS Standards and their relationship with the New Zealand PBE Standards is provided in the IPSAS factsheet accompanying the relevant tier papers' appendices.

12. Tier 2 PBE Accounting Requirements have the same recognition and measurement requirements as Tier 1, with disclosure concessions.[5] Tier 1 and Tier 2 therefore retain a

[1] Examples only; legal form is not determinative of PBE classification. Refer to XRB A1, paragraph 6 and Appendix A.
[2] XRB, *XRB A1 Application of the Accounting Standards Framework*, Basis of Conclusions, paragraphs 4–6, and Basis of Conclusions, paragraph 29.
* Separate standards apply to PS PBEs and NFP PBEs at Tiers 3 and 4.
[3] XRB, *XRB A1 Application of the Accounting Standards Framework*, Basis of Conclusions, paragraph 34.
[4] XRB, Policy Approach to Developing the Suite of PBE Standards, updated August 2020
[5] XRB, *XRB A1 Application of the Accounting Standards Framework*, Basis of Conclusions, paragraph 36.

common recognition and measurement basis, while eligible Tier 2 entities apply reduced disclosure requirements.

13. IPSAS Standards are developed by the International Public Sector Accounting Standards Board (**IPSASB**) for governments and other public sector entities internationally. Jurisdictions use IPSAS Standards in different ways, including direct adoption, modification for local circumstances, or as a reference point in developing national public sector accounting standards. New Zealand is identified internationally as applying IPSAS Standards modified for the local context.[6]

14. IPSAS Standards are maintained through the IPSASB's international standard-setting and due process arrangements. This provides an international standards development and maintenance framework that is relevant when considering the sustainability and ongoing operation of New Zealand's PBE reporting framework.

Domestic Tier 3 and Tier 4 standards

15. Tier 3 PBE Accounting Requirements use a domestically developed simple-format reporting approach. In broad terms, the recognition and measurement requirements are similar to Tier 1, albeit simplified and less comprehensive, with more significant changes in approach for presentation and disclosure. Separate accrual-based standards apply to PS and NFP PBEs to reflect differences in user needs and legislative requirements between the two PBE sub-sectors, including terminology and service performance reporting. For example, Tier 3 public sector PBEs are required report on service performance only where there is an applicable legislative requirement.

16. Tier 4 PBE Accounting Requirements also use a simple-format reporting approach but are designed to be simpler than Tier 3 and comprise non-GAAP standards. Separate cash-based standards apply to PS and NFP PBEs.

17. The basis for the Tier 3 and Tier 4 approaches is discussed in XRB A1, BC37–BC40.

18. The current Tier 3 and Tier 4 PS and NFP standards were issued in May 2023 and became mandatory for accounting periods beginning on or after 1 April 2024. This relatively recent implementation is relevant when considering the extent of evidence currently available on the operation of the domestic standards.

19. Further information on the tier criteria, thresholds and development of the PBE framework is provided in the **Background and Context paper**.

Distinctive characteristics of PBE reporting

20. PBEs are characterised by a primary objective of providing goods or services for community or social benefit rather than generating a financial return to equity holders. This affects the nature of accountability and the information needed from general purpose financial reporting. Financial performance alone may not provide a complete picture of how a PBE has obtained, managed and used resources to deliver services. Across both PS and NFP populations, PBE reporting therefore has a strong accountability and stewardship focus.

21. Relevant reporting circumstances may include grants and transfers, transactions where consideration is not at market terms, donated resources, restrictions or conditions over the use of resources, and assets held primarily to support service delivery rather than to generate

[6] International Federation of Accountants (IFAC) and Chartered Institute of Public Finance and Accountancy (CIPFA), International Public Sector Financial Accountability Index: 2025 Status Report.

financial returns. The nature and significance of these matters differ across entities, sectors and tiers.

22. This common PBE context is relevant when assessing technical fitness of a framework. A framework needs to be capable of faithfully representing the transactions and accountability relationships of the relevant PBE population, while remaining proportionate to the information needs of users and the costs and capability of preparers.

Common PBE framework and distinct reporting populations

22. PS and NFP entities are not homogeneous reporting populations. Their legislative and regulatory environments, accountability relationships and users, funding and service-delivery arrangements, transaction profiles and reporting capability may differ.

23. The broader PS and NFP reporting environments are significant in scale and diversity, with detailed population evidence considered in the relevant tier papers.

24. This paper therefore focuses on matters that are common across the PBE framework, or where the relationship between the PS and NFP workstreams needs to be considered. Population-specific evidence, analysis and conclusions are addressed in the relevant tier papers.

25. The nature and significance of practical challenges may differ across sectors and tiers. Challenges identified in the Tier 1 or Tier 2 PS workstreams should not be assumed to apply to Tier 3 or Tier 4, or to the NFP workstream. Each tier paper therefore identifies and tests the practical challenges relevant to its own reporting population

Common areas of analysis

26. The following common areas of analysis recur across the PS and NFP Tier 1–4 papers and, where relevant, draw on common evidence used consistently across the workstream. They support consistency across the PBE workstream but are not separate assessment criteria and do not limit the matters considered for each framework option.

- **Information needs of users and preparer considerations**

27. The primary users of PBE general purpose financial reports are service recipients and resource providers, and their representatives, who rely on those reports for accountability and decision-making purposes.[7] A common PBE reporting objective and a common broad description of primary users does not mean that PS and NFP entities, or entities in different tiers, have the same users, accountability relationships or reporting circumstances.

28. Service performance information forms part of PBE general purpose financial reporting and is relevant to the accountability and information needs of PBE users. Detailed service performance reporting requirements are outside the scope of this paper.

29. PBE financial statements also operate within a wider accountability environment. Depending on the entity, users may receive financial information alongside service performance information, budgets, funding or appropriation information, annual reports and other statutory or regulatory reporting. The role of the accounting framework should therefore be considered within that wider reporting environment rather than in isolation.

30. The tier papers therefore consider whether each viable framework option is proportionate for the relevant population, including the balance between users' information needs and

[7] XRB, Public Benefit Entities' Conceptual Framework, paragraphs 2.1–2.4. Paragraph 2.1 identifies accountability and decision-making as the objectives of financial reporting, and paragraph 2.4 identifies service recipients and their representatives, and resource providers and their representatives, as the primary users of GPFRs.

accountability requirements, and the costs, complexity and capability demands of reporting, including relevant audit implications.

31. Evidence availability may differ across PS and NFP populations and tiers, and administrative data may not map directly to XRB A1 reporting populations and tier classifications. Where evidence on populations, users, preparers, costs, capability, practical challenges or reporting impacts is limited, those limitations are identified in the relevant tier papers and may inform further outreach or consultation. This is particularly relevant to the Tier 3 and Tier 4 assessments given the relatively recent implementation of the revised standards described in paragraph 18.

- **International practice, alignment and comparability considerations**

32. IPSAS Standards are the primary international basis for the current Tier 1 and Tier 2 PBE Standards and are particularly relevant to the PS workstream. For NFP entities, IPSAS remains relevant to the current framework, while the International Non-Profit Accounting Standard (**INPAS**) provides an additional NFP-specific international reference point. Its relevance and implications are considered further in the NFP tier papers.

33. International alignment is therefore a common PBE consideration, but the relevant reference points and their significance may differ between the PS and NFP workstreams and across tiers. Australia provides a relevant comparator, while the implications of international and domestic approaches for comparability, credibility, sustainability and practical application are assessed in the relevant tier papers.

- **Optionality and framework coherence considerations**

34. The different standards bases and existing links across the PBE tiers make framework coherence a particular consideration for the PBE workstream. Framework options therefore need to be considered not only for their suitability within an individual tier, but also for their effect on the relationships between tiers and on the operation of the wider PBE framework.

35. Movement between Tier 1 and Tier 2 does not change an entity's recognition and measurement requirements. Movement involving Tier 3 or Tier 4 may involve more substantive changes in reporting requirements and transition between different reporting bases. This may affect systems, reporting processes, training, audit approaches, workforce capability and transition costs, and the significance of those effects should be assessed in the relevant tier papers.

36. Optionality is not only an entity-choice issue. Where framework options introduce or permit different reporting bases within or across tiers, the assessment should consider effects on coherence, comparability, understandability, operability, fragmentation risk, ecosystem capacity and the sustainability of the wider PBE framework.

37. The sustainability of the framework over time is also relevant. This includes whether an option can be supported and maintained within New Zealand's standard-setting, implementation, audit and advisory ecosystem, and the frequency and scale of future changes that may need to be absorbed. These matters are considered through the ecosystem, transition cost and ongoing cost criteria rather than as a separate assessment criterion.

Structure and assessment approach for the PS and NFP tier papers

38. The overall viable-options methodology for the ASF review is set out in the **Background and Context paper**. The PS and NFP Tier 1–4 papers apply that methodology using the common framework-level assessment criteria set out below.

39. The PS and NFP Tier 1–4 papers generally use a common structure and assessment approach to support consistency in how framework options are described, assessed and compared, while allowing each paper to reflect the circumstances of the relevant reporting population and tier.

40. The criteria are intended to support structured judgement across each sector for each alternative framework. Noting that, interoperability is relevant across the PBE tiers, while technical fitness is considered in the context of the transactions, users and accountability relationships of the relevant PS or NFP population.

Figure 4: Framework assessment criteria

	Focus of assessment
Criterion	**Public Sector and Not-for-Profit PBEs**
1. Technical fitness	**Public Sector:** Technical fitness; coherent suite capable of ***faithfully representing public sector transactions and accountability relationships,*** developed with user needs in mind (preparers and user focus) – focused on benefits. **NFP:** Technical fitness; coherent suite capable of ***faithfully representing not-for-profit transactions and accountability relationships*** , developed with user needs in mind (preparers and user focus) – focused on benefits.
2. Simplification	Recognition, measurement and disclosure simplification options (addressing preparer complexity while maintaining decision useful information)
3. Local relevance	Ability to reflect NZ economic and user needs, including through local modifications and international standard-setting influence (importance may vary across tiers and entity types) – focused on benefits.
4. International alignment	Internationally aligned, recognised and comparable - including Australia (importance may vary across tiers and entity types) – focused on benefits.
5. Ongoing costs	Ongoing costs of applying and maintaining the standards (i.e. how often are changes expected), including AI-related costs (preparer focus)
6. Move between tiers ★	Interoperability with Tier 1 (accounting requirements and workforce capability)
7. Ecosystem	Availability of skills, guidance, systems, audit capability and training to support implementation and ongoing application.
8. Transition costs	Cost of change (transition costs for preparers, auditors, regulators and wider ecosystem)

★ Tier 2 public sector key criteria are consistent to that of Tier 1 except for the addition of:

Move between tiers – Interoperability with Tier 1 (accounting and workforces)

41. The same criteria are applied across the PS and NFP workstreams, but the relative emphasis may differ. Relevant international reference points and ecosystem considerations may also

differ. These differences are addressed within the relevant tier papers rather than by applying different assessment criteria.

42. Figure 5 below is included as a navigation aid to show where the common assessment criteria and common areas of analysis are generally embedded in those papers; it does not add separate analysis or assessment criteria to those papers. While the papers follow a broadly consistent approach, the structure, emphasis and extent of analysis within individual sections may be tailored to reflect the issues, evidence and framework options relevant to each tier.

Figure 5: Navigation aid – structure of each PS and NFP tier review paper

Section in each tier paper	
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 of a framework 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 PBE 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.

Question for the Board

Q1. Does the Board have any **FEEDBACK** on the common PBE context, areas of analysis and assessment approach set out in this paper for the PS and NFP Tier 1–4 framework papers?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**Review of the Accounting Standards Framework (ASF) – Public sector Tier 1 and Tier 2 framework review**
Date:	1 October 2026
Prepared by:	Raveen Kaur
Inputs by:	Alex Stainer
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose

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

Recommendations

2. We recommend the Board:

   (a) **NOTE** the evidence and framework analysis of the current Tier 1 and Tier 2 public sector reporting frameworks, the alternative framework options considered, and the key drivers from the criteria and RAG assessment;

   (b) Provide **FEEDBACK** on whether the paper appropriately reflects the characteristics, legislative context, international practice and alignment, users' needs and preparer considerations, practical challenges and framework options relevant to Tier 1 and Tier 2 public sector PBEs.

   (c) Provide **FEEDBACK** on the proposed information and stakeholder questions relating to Tier 1 and Tier 2 public sector PBEs for the public discussion paper (blue text).

Scope and how to read this paper

3. This paper focuses on the public sector entities that are required to report under the current PBE Standards in Tier 1 or are eligible to report in Tier 2 under XRB A1. It should be read together with the **PBE sector overview paper**, which sets out the common PBE context and assessment approach. Rather than repeating that information, this paper draws on the common context, assessment approach and framework-level criteria and applies it on matters that are specific to the Tier 1 and Tier 2 public sector reporting populations, including proportionality, interoperability between tiers, framework coherence and transition implications.

4. The paper does not reassess which entities are required by legislation to prepare GAAP-compliant financial statements, or the public accountability definition in XRB A1, or the tier thresholds or legislative reporting thresholds. Those matters have been or will be addressed separately as part of the broader ASF review in the **Definition of public accountability paper** and the **Tiers and Thresholds papers**.

5. The analysis in this paper is conducted at the reporting-framework level. It considers the framework bases and proportionality mechanisms that could apply to Tier 1 and Tier 2 public sector PBEs, rather than proposing detailed changes to the individual recognition, measurement, presentation or disclosure requirements in the current standards. Any detailed standard-level changes will require separate technical analysis, due process and public consultation by the External Reporting Board (**XRB**) before they could be issued.

6. The assessment distinguishes matters that could be materially affected by framework design from matters driven primarily by legislation, individual standards, funding arrangements, data and systems, valuation processes, audit capacity, implementation timing or the inherent complexity of public sector activities etc. A change in reporting framework should therefore be considered only where it would materially improve the relevant reporting issues after taking into account transition costs, ecosystem coherence and other potentially wider implications.

Contents of this paper

Section in the tier papers	Purpose of the section
Background and context for Tier 1 and 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 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 of the reporting framework in New Zealand.
Practical challenges with the current framework	Explains the current framework challenges and or 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.
Framework coherence considerations	Considers whether the framework options would support flexibility within the tier while maintaining coherence, comparability, understandability and operability across Tier 1 and Tier 2 public sector PBE entities.
Analysis of framework options	Assesses each framework option using the common ASF framework-level criteria and identifies the key benefits, trade-offs 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.

Appendix Contents

Background and context for Tiers 1 and 2

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

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

Why the current PBE Standards are primarily IPSAS-based

8. The current PBE Standards were developed with IPSAS as the primary international reference point following the XRB's decision to adopt a multi-standards approach that better reflects the different reporting objectives and information needs of for-profit entities and PBEs. The XRB considered IPSAS a more appropriate basis for PBE reporting than IFRS because IPSAS is developed for public sector entities whose primary objective is to deliver services rather than generate financial returns for investors. IPSAS also addresses the information needs of a wider group of users, including service recipients and resource providers, and supports accountability for the use of public resources, stewardship of significant public assets, and financial reporting by both central and local government entities. The XRB adopted a primarily IPSAS-based framework, rather than IPSAS without modification, to allow for New Zealand-specific modifications and requirements relevant to both public sector and not-for-profit entities.[1]

9. The Tier 1 and Tier 2 public sector frameworks are being considered together because they share the same recognition and measurement basis but serve populations with different scale, capability and proportionality considerations. The review tests whether the current reporting basis remains fit for purpose for Tier 1, and whether the Tier 2 reduced disclosure mechanism provides an appropriate level of proportionality for eligible public sector entities in Tier 2. The review does not start from an assumption that either framework should be changed or be retained.

10. Since the current PBE framework was established, the international public sector standard-setting environment has continued to develop. IPSASB has expanded and updated the IPSAS suite and, under its 2024–2028 strategy, has rebalanced its work programme towards maintenance and consistent application.[2] New Zealand has also continued to develop PBE Standards through its own consultation and due process, guided by the PBE Policy Approach when considering whether and how new or amended IPSAS should be incorporated into the New Zealand suite.[3] This continuing development is relevant because it means the current

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

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

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

Relationship between IPSAS and IFRS Accounting Standards

11. Many IPSAS requirements have a close relationship with IFRS Accounting Standards which are set by the International Accounting Standards Board (**IASB**). IFRS Accounting Standards often provide the starting point for the International Public Sector Accounting Standards Board (**IPSASB**) when developing the related IPSAS requirements. IPSASB also has a formal process for considering IASB documents for alignment and determining whether identified public sector issues warrant departures when developing related IPSAS requirements. The IPSAS suite also contains requirements developed specifically for public sector transactions and circumstances.[4] This relationship means the current PBE Standards are not disconnected from IFRS-based reporting, but instead they adapt or supplement IFRS-based requirements where public sector considerations indicate that different treatment may be needed.

12. The detailed differences between IPSAS Standards and IFRS Accounting Standards, including the implications of those differences for New Zealand public sector reporting, are considered in more detail in the separate **Alignment between IPSAS and IFRS Accounting Standards paper**. This paper uses that analysis as an input to the framework assessment rather than repeating standard-by-standard differences here.

Evidence from previous review work

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

Broader context of public sector reporting

14. In the public sector, general purpose financial reports prepared in accordance with accounting standards are part of a broader accountability mechanism. For example, as explained on the Audit Office website, accountability and stewardship documents published by the New Zealand Government and/or government departments and agencies include budget policy statements, statements of intent, budgets, Estimates and the main Appropriations Bill, long-term fiscal statements, long term insights briefings and certain other accountability and stewardship documents – in addition to the annual report containing the financial statements. Furthermore, governments (including the New Zealand Government) also report statistical information to support macroeconomic and fiscal policy analysis – see the discussion on the Government Finance Statistics Manual in this memo.

15. Accountability to citizens and their representatives is important in the public sector context. The World Bank's publication on the Worldwide Governance Indicators notes that "When

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

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

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

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

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

Legislative and regulatory environment

Reporting obligations and tier allocation

17. Legislation determines which public sector entities are required to prepare financial statements or other reports in accordance with generally accepted accounting practice (**GAAP**). Under the Financial Reporting Act 2013, GAAP comprises compliance with applicable financial reporting standards and, for matters not addressed by those standards, authoritative notices issued by the XRB for preparing those reports. The XRB issues accounting standards for the preparation of general purpose financial reports (**GPFR**), which are intended to meet the information needs of users who cannot require tailored information from the entity. XRB A1 applies to entities that have a statutory obligation, or opt under an enactment, to prepare GPFR in accordance with XRB accounting standards. It determines the applicable sector, tier and accounting requirements. The ASF does not create those reporting obligations; these arise through legislation. The broader legislative pathway is addressed in the **Background and context paper**. The legislation discussed below is illustrative rather than exhaustive; other enactments may also require public sector entities to prepare financial statements in accordance with GAAP.

18. Examples of legislation relevant to the Tier 1 and Tier 2 public sector reporting environment include the Public Finance Act 1989 and the Crown Entities Act 2004[6]. The Public Finance Act requires the annual financial statements of the Government and departmental annual financial statements to be prepared in accordance with GAAP. The Crown Entities Act requires Crown entity annual financial statements to comply with GAAP. The applicable XRB A1 tier is then determined separately.

19. Local authorities operate within a separate statutory reporting environment. The Local Government Act 2002 requires annual reports to include audited financial statements for the local authority and audited consolidated financial statements, together with broader statutory reporting information, including information on activities and performance and audited funding impact statements. The Act specifies that the purpose of the annual report include comparing actual activities and performance against planned activities and performance and promoting accountability to the community.[7] These requirements illustrate that, for local authorities, Tier 1 and Tier 2 public sector financial reporting operate alongside broader statutory accountability and performance reporting requirements.

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

[7] Local Government Act 2002, ss 98 and ss111, and Part 3 of Schedule 10, including the annual report's accountability purpose and requirements for audited financial statements and other statutory reporting information.

Public accountability and broader public sector accountability

20. The technical definition of public accountability in XRB A1, which is used for determining tier eligibility, is narrower than the broader accountability obligations of public sector entities. Depending on the entity, its accountability relationships may extend to Parliament and other elected representatives, Ministers, taxpayers, ratepayers, service recipients, donors and other funders, creditors and lenders, investors – including, for the Government reporting entity, investors in New Zealand Government Bond markets where relevant – regulators and oversight bodies, communities and the wider public.[8] The **Definition of public accountability paper** considers the technical definition and its interaction with tier allocation in more detail.

21. For this combined assessment, the wider public sector accountability environment remains relevant to the needs of these users and technical fitness, even where an entity is allocated to a tier because of size rather than technical public accountability. The framework therefore needs to support reporting about stewardship of public resources, financial position and performance and, where required, service performance, while allowing the level of reporting to remain proportionate to the relevant tier.

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

Tier	Tier allocation	Current reporting basis
Tier 1[9]	• Has **public accountability** under XRB A1; or • Is **'large'** (total expenses > $33 million); or • Is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.	Full PBE Standards.
Tier 2[10]	• Does not have **public accountability**; and • is not **'large'** (total expenses > $5 million but < $33 million).	PBE Standards RDR - same recognition and measurement as Tier 1, with reduced disclosure requirements.

Characteristics of the reporting population

Tier 1 reporting population

22. The Tier 1 public sector population comprises larger public sector PBEs applying the full PBE Standards. Based on information available to the XRB, technical public accountability as defined in XRB A1 may apply to only a very small number of public sector PBEs (e.g. those that issue bonds to the public), suggesting that size is the largest driver of the observed Tier 1 population. [11]The separate **PBE tiers and thresholds paper** considers these reporting tiers and thresholds in more detail separately, and whether those allocation criteria remain appropriate.

23. The Tier 1 population comprises the Government reporting entity, government departments, local authorities, some Crown entities and other public sector PBEs that meet the Tier 1 criteria. As shown in Figure 2, internal XRB information identifies an indicative Tier 1 public sector population of 189 entities. This is substantially smaller than the reported Tier 2 population after adjusting for schools, as discussed later in this paper. Unlike Tier 2, the Tier 1 population is

[8] This paragraph describes the broader accountability relationships of public sector entities and is not intended to restate the PBE Conceptual Framework's definition of primary users of GPFR. The Conceptual Framework identifies service recipients and resource providers, and their representatives, as the primary users of GPFR.
[9] XRB, XRB A1 *Application of the Accounting Standards Framework,* paragraphs 37-38.
[10] XRB, XRB A1 *Application of the Accounting Standards Framework*, paragraphs 39.
[11] XRB internal information on the composition of the Tier 1 public sector PBE population.

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

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

What distinguishes Tier 1 from Tier 2?

25. The practical distinction between Tier 1 and Tier 2 is narrower than a change of accounting framework. Both tiers apply the same recognition and measurement requirements under the PBE Standards. Tier 1 applies the full PBE Standards, while Tier 2 provides proportionality through reduced disclosure concessions under PBE Standards RDR.[12]

26. This is relevant to the combined assessment because, if Tier 1 moved to a different recognition and measurement basis for Tier 1 while Tier 2 did not, the tiers would no longer share a common accounting basis. This could affect comparability between tiers, movement between tiers, the preparation of consolidated financial statements where entities within a group apply different tiers, and the benefits of preparers and users being familiar with a common set of recognition and measurement requirements.

Nature and diversity of Tier 1 public sector activities

27. Tier 1 public sector PBEs are not a homogeneous population. Depending on the entity, activities may include policy and regulatory functions, public service delivery, infrastructure and asset management, grant-making and transfer programmes, financing and investment activities, and management of long-term obligations, including employee benefits. Some entities may also control, or form part of, large and complex groups.

28. These characteristics matter to the framework assessment because a Tier 1 framework must be capable of addressing both transactions common to other sectors and matters that arise particularly in the public sector. It must also support consolidated reporting and provide information that supports accountability and decision-making, including information about the management and use of public resources and, where relevant, service performance.

Evidence of scale

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

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

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

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

30. The same financial statements illustrate the transaction profile relevant to technical fitness: $121.1 billion of taxation revenue, $44.7 billion of transfer payments and subsidies, material financial assets and derivatives, and specialised asset classes including state highways, electricity generation assets, the rail network, cultural and heritage assets and specialist military equipment. [15] The framework therefore needs to deal with sovereign revenue, transfers, and long-lived specialised assets as well as transactions common to other sectors.

31. Local government presents a different profile. New Zealand has 78 local authorities.[16] Local government owns and operates 26% of New Zealand's infrastructure assets, valued at approximately $76 billion.[17] The Auditor-General has also observed that council balance sheets are dominated by recorded asset valuations and that relatively small inaccuracies in key valuation assumptions could result in material misstatement.[18] Although this evidence relates to the wider local government population rather than Tier 1 alone, it illustrates the scale and significance of the public resources managed by councils and their corresponding accountability to ratepayers, communities and other users of their financial reports.

Public sector financing and capital-market relevance

32. Access to capital markets is relevant to central government because the Crown raises significant funding through New Zealand Government Bond (NZGB) markets, which has substantial non-resident participation. Forecast gross NZGB issuance for 2026/27 is NZ$34 billion, and NZGBs outstanding are forecast at approximately NZ$224 billion, at face value, at 30 June 2027.[19] As at 31 May 2026, 60% of the NZGBs[20] were held by non-resident investors and therefore a material part of the sovereign bond investor base. This supports the relevance of maintaining financial reporting that is transparent, internationally credible and understandable to users in global capital markets.

33. Capital-market relevance is not limited to central government. Some local authorities also access domestic and international debt markets directly, while the wider local government sector accesses market funding through the Local Government Funding Agency.[21] LGFA forecasts gross bond issuance of approximately NZ$4.7–4.8 billion a year over 2026/27 to 2028/29 and expects to use a mix of NZD bonds and bills, foreign-currency bonds and Euro-commercial paper (ECP). [22] Although LGFA itself is a for-profit entity applying NZ IFRS, its borrowing programme provides broader context on the scale and international reach of market financing used to fund the local government sector. This reinforces that the Tier 1 assessment

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

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

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

[18] Office of the Auditor-General, *Results of council audits in 2025*, "Asset valuations"

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

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

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

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

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

34. The Reserve Bank notes that government bond markets can affect investor confidence and borrowing costs and that the New Zealand financial system is closely connected to global capital markets.[23] These observations reinforce the relevance of the international credibility and understandability of public sector reporting when assessing the Tier 1 framework. However, they do not establish that capital providers prefer any particular accounting framework, or that adopting a particular framework would lower borrowing costs or increase capital flows. Those propositions would require direct evidence from capital providers and other market participants.

35. The broader financing environment also places limits on what can be attributed to the accounting framework. The OECD reports that New Zealand's general-government investment reached around 4.9% of GDP in 2025, among the highest in the OECD, and notes that local government revenue and debt-ceiling constraints restrict councils' ability to undertake investment regardless of the financing source, whether through LGFA or private markets.[24] The ASF can support transparent and credible reporting about public resources and financing, but it cannot itself resolve structural funding, revenue or infrastructure-investment constraints.

36. Overall, this evidence establishes that capital providers, including non-resident investors, are a relevant user group for some Tier 1 public sector PBEs. It therefore supports considering international credibility and understandability as relevant factors in assessing the Tier 1 framework. It does not establish that capital-market considerations should outweigh broader public accountability objectives or that any particular accounting framework would produce better financing outcomes.

Tier 2 reporting population

37. Tier 2 public sector PBEs considered in this combined assessment are entities required to prepare GAAP-compliant financial statements that are eligible to apply the Tier 2 PBE Accounting Requirements. Although they do not meet the Tier 1 allocation criteria summarised earlier, they remain subject to public sector accountability arrangements. The Tier 2 framework is intended to provide proportionate reporting through reduced disclosures rather than a different recognition and measurement basis. Entities that are not required to report under the ASF but voluntarily elect to apply Tier 2 are not the focus of this assessment.

38. Internal XRB information identified approximately 2,602 public sector entities reporting in Tier 2, of those approximately 2,417 are schools. Around 605 schools fall within the Tier 2 total expenses threshold, while the remaining approximately 1,812 schools — about 75% of the school population currently reporting in Tier 2 — would otherwise be eligible to report in a lower tier under XRB A1. Excluding those lower tier eligible schools would reduce the indicative Tier 2 public sector population to approximately 790 entities, comprising around 605 schools and 185 other public sector entities. Schools therefore materially influence both the size and composition of the reported Tier 2 population. Schools that are not in Tier 1 currently apply Tier 2 PBE Standards under the Ministry of Education's prescribed school financial reporting

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

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

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

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

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

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

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

Information needs of users and preparer considerations

Users and accountability needs

39. The primary users of PBE general purpose financial reports are resource providers, service recipients and their representatives. In the public sector these users can include investors, taxpayers, ratepayers, donors, grantors, Parliament or other elected representatives, service recipients, lenders and other parties that cannot require information tailored to their individual needs. The objective of PBE GPFR is to provide information to these primary users for accountability and decision-making purposes. The underlying accountability objective is common across Tiers 1 and 2, although the nature and extent of information needed may differ by entity and tier.

40. Users may use Tier 1 and Tier 2 public sector reporting to assess how public resources have been raised and used, financial position and sustainability, financial performance and cash flows, management and use of resources, compliance with relevant obligations and, where applicable, service performance. In relation to service performance specifically, PBE FRS 48 - *Service Performance Reporting* notes that users are generally interested in whether resources have been used for their purpose, what has been achieved with the resources available, and whether more could have been achieved.[27]

41. The PBE Conceptual Framework identifies service recipients and their representatives, and resource providers and their representatives, as the primary users of PBE GPFR, and states that their information needs are likely to overlap in many respects. These needs include information about service and financial performance, the management and use of resources, compliance with relevant requirements, liquidity and solvency, long-term sustainability, and the capacity to

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

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

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

fund and deliver services in future periods. The Conceptual Framework does not differentiate these information needs by reporting tier. XRB A1 addresses proportionality for eligible Tier 2 PBEs through disclosure concessions while retaining the same recognition and measurement requirements as Tier 1. [28] The relevant question for this review is therefore not whether Tier 1 and Tier 2 users have fundamentally different information needs, but whether those common accountability and decision-making needs can be met for users of Tier 2 entity financials through proportionate level of disclosure.

42. Existing public evidence does not establish whether the current Tier 2 reduced disclosure requirements appropriately balance user information needs with preparer and audit burden. This remains an evidence gap for the Tier 2 proportionality assessment.

43. For some Tier 1 public sector entities, lenders and domestic and overseas bond investors may be users of published financial information.[29] As discussed earlier in this paper in the section on public sector financing and capital-market relevance, this makes the international credibility and understandability of public sector reporting relevant to the framework assessment. The remaining evidence question is whether these users rely on GPFRs in practice and whether the standards base materially affects their assessment of an issuer.

Preparer, audit and operational considerations

44. The capability and resources available to implement new or amended standards can vary significantly across the public sector. Smaller public sector entities may have limited finance resources and access to specialist accounting expertise, meaning that the cost and effort of implementing changes may be proportionately greater for them, even where the underlying recognition and measurement requirements of the standards are the same.

45. The available evidence reviewed does not identify access to specialist capability in applying PBE Standards as a recurring cause of reporting or audit difficulties for Tier 1 and Tier 2 entities. Public audit evidence relating to local government points more directly to issues such as asset valuation, systems and controls, the completeness and quality of auditable information, and timeliness. [30] These matters are relevant to the complexity and auditability of public sector reporting, but do not by themselves indicate that the accounting standards basis is the underlying cause.

46. The framework also needs to operate across the wider public sector reporting ecosystem. Relevant considerations include auditor capability, consistency of application, guidance and implementation support, the interaction with government and regulatory reporting processes, systems used across public sector groups, and the XRB's capacity to maintain the standards over time.

International practice, alignment and comparability considerations

IPSAS as the primary international reference point

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

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

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

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

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

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

Selected international comparators

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

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

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

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

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

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

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

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

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

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

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

	including IPSAS, have informed the development of certain requirements, but IPSAS are not adopted in their entirety.	

50. The jurisdictions were selected for different reasons. New Zealand provides the current baseline; Australia is the most directly relevant trans-Tasman comparator; the United Kingdom provides an IFRS-based public sector comparator and is also where the IASB is based; Canada provides an IPSAS-referenced domestic public sector framework and has a close institutional connection with IPSASB, whose staff operations are based in Toronto; the United States illustrates domestic public-sector standard setting without alignment to IPSAS or IFRS; and China provides an example of a major economy using a nationally developed government accounting framework informed in part by international standards. The broader international evidence indicates that IPSAS-based or IPSAS-referenced approaches are more prevalent among jurisdictions reporting on a full accrual basis than IFRS-based public sector frameworks.

51. For this assessment, "international alignment" is not a single outcome. Alignment with IPSAS may support comparability with international public sector reporting approaches; alignment with Australia may support trans-Tasman comparability and potentially workforce and systems benefits; and IFRS familiarity may be relevant to some international users and capital-market participants. These considerations do not, by themselves, establish that any particular standards architecture is preferable for New Zealand.

52. For Tier 2, the underlying standards base and the mechanism used to achieve proportionality are separate questions. This paper does not undertake a detailed comparison of Tier 2 proportionality mechanisms across all the jurisdictions listed above. Australia is considered in greater depth because of its particular trans-Tasman relevance. The United Kingdom, Canada, United States and China are included primarily as comparators of standards architecture, rather than as specific Tier 2 models. The Tier 2 assessment considers whether an Australia-aligned approach could provide greater simplification for eligible New Zealand public sector entities while maintaining technical fitness, user usefulness and interoperability with Tier 1.

Practical challenges with the current framework

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

Figure 3: Key challenges summary



What these challenges mean for this ASF review

- **Complexity of requirements** – Some public sector entities undertake complex transactions, operate within large groups and manage significant specialised assets requiring judgement and valuation expertise. Recent local-government audit evidence indicates the technical demands associated with asset valuations.[39] This does not establish that the accounting requirements themselves are unnecessarily complex. For Tier 2, the key question is whether the current disclosure concessions provide proportionate relief where recognition and measurement requirements remain the same as Tier 1.[40]
- **Mixed group reporting** – Public sector groups may include entities applying different sectors or tiers of the ASF, requiring consolidation adjustments or accounting-policy alignment. Changes to the Tier 1 or Tier 2 basis could affect interoperability within groups and movement between tiers. Detailed mixed group issues are considered in the separate **Analysis of mixed group issues paper**.
- **Constrained resources and workforce mobility – Capability** and resourcing pressures may differ across entities, but the evidence reviewed does not establish a widespread shortage of specialist PBE, audit or valuation expertise. The review therefore needs to distinguish current capability constraints from potential workforce or retraining implications arising under alternative framework options.
- **Australian comparability –** Current evidence does not establish that differences between the Australian and New Zealand public sector reporting framework create a material comparability problem. The assessment therefore considers whether closer Australian alignment would provide meaningful trans-Tasman, workforce or systems benefits, taking into account the implications for New Zealand's existing IPSAS-based framework, domestic requirements, interoperability and transition costs.
- **Change fatigue and cost of staying current –** Maintaining the current framework requires ongoing implementation and maintenance as IPSAS develops and New Zealand considers corresponding amendments through domestic due process. This affects systems, controls, reporting processes and audit methodologies. Ongoing maintenance would also arise under alternative frameworks, so the relevant question is the relative scale and nature of that effort under each option.

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

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

- **Accountability and usefulness.** No specific current failure in the accountability or decision-making usefulness of Tier 1 or Tier 2 reporting has been identified. The main evidence gap is how users engage with the reports and, particularly for Tier 2, whether current disclosure concessions retain the information most useful for accountability and decision-making.

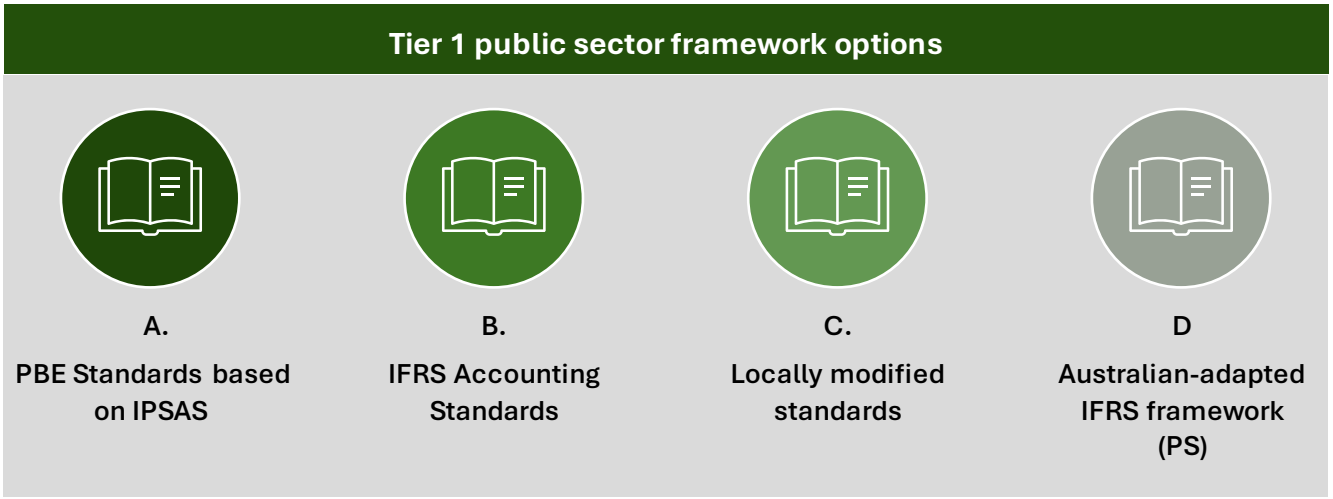
54. These matters should be assessed against current evidence for each tier. They do not all represent demonstrated problems with the ASF, and not all could be resolved by changing the reporting framework. Some reflect implementation, systems, valuations, resourcing or statutory matters outside the ASF itself. The assessment therefore distinguishes between demonstrated issues, evidence gaps, consequences of alternative framework options and matters outside the scope of the review. [41]

Reporting framework options considered

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

56. Figures 4 and 5 summarise the framework options considered for Tier 1 and Tier 2 public sector reporting.

Figure 4: Tier 1 PS framework options



Why these frameworks were selected for Tier 1

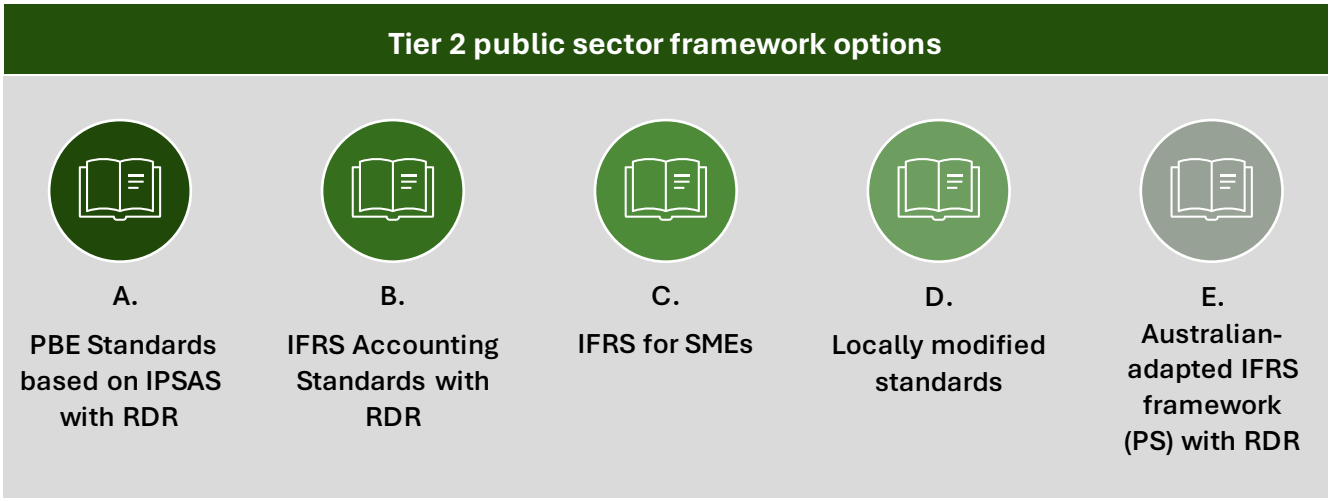
57. The Tier 1 options represent the main alternative standards architectures identified through the review. They include:

    - **PBE Standards based on IPSAS** – the current framework and therefore the baseline against which alternatives are assessed.
    - **IFRS Accounting Standards** – an internationally recognised standards framework that provides an alternative international basis to IPSAS, although it is developed with for-profit entities in mind.

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

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

Figure 5: Tier 2 PS framework options



Why these frameworks were selected for Tier 2

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

Government Finance Statistics Manual

60. The Government Finance Statistics Manual 2014 (GFSM) was considered but has not been included as an alternative general purpose financial reporting framework for Tier 1 and Tier 2 public sector entities. GFSM is a macroeconomic statistical framework designed to support fiscal analysis. Its primary purpose is to provide a conceptual and reporting framework for analysing and evaluating fiscal policy, particularly the performance of the general government sector and broader public sector.[42] This differs from the purpose of general purpose financial reporting, which is to provide information about a reporting entity that is useful to users for accountability and decision-making purposes.[43]

61. GFSM also uses concepts, classifications and recognition requirements that differ in important respects from general purpose financial reporting frameworks such as IPSAS Standards. For example:

- **GFSM uses different accounting treatments in some areas**. For example, it distinguishes between transactions and other economic flows, so revaluations and other changes in the value or volume of assets and liabilities are generally reported as other economic flows rather than as transactions affecting the net operating balance. GFSM also generally recognises financial liabilities where there is a corresponding financial claim of another institutional unit, meaning some provisions recognised under accounting standards are not recognised as liabilities in GFS.
- **GFSM also uses a different presentation and classification structure**. For example, it includes a Statement of Operations and a separate Statement of Other Economic Flows and distinguishes between financial and non-financial assets. These differences reflect its focus on fiscal statistics and macroeconomic analysis.[44]
- **GFSM also applies a different reporting-unit perspective**. It is designed primarily for compiling fiscal statistics for the general government and public sectors and their subsectors. Individual ministries, departments and agencies are not necessarily treated as separate institutional units under GFSM, whereas general purpose financial reporting may require financial statements for individual reporting entities.[45]

62. Taken together, these differences in purpose, accounting treatment, presentation and reporting-unit perspective mean that GFSM is complementary to, rather than a substitute for, a general purpose financial reporting framework for Tier 1 and Tier 2 public sector entities. GFSM is nevertheless relevant to the assessment because financial reporting and statistical reporting are closely related. The IPSASB seeks to strengthen the linkages between IPSAS Standards and GFSM and reduce unnecessary differences between the two systems. It also maintains an IPSAS Standards–GFSM Alignment Dashboard identifying differences between the frameworks. IPSAS 22 *Disclosure of Financial Information About the General Government Sector* provides requirements for governments that elect to present information about the 'general government sector' (a GFSM concept) in their consolidated financial statements, providing a further link between IPSAS-based financial reporting and statistical reporting.[46] There is also a linkage to

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

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

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

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

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

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

Framework coherence considerations

Optionality within Tier 1 and Tier 2

63. Optionality is considered as a potential design feature of the overall framework rather than as a separate reporting framework option. The question is whether Tier 1 or Tier 2 public sector PBEs should be permitted to choose between more than one reporting basis and, if so, in what circumstances. This differs from an entity electing to apply a tier for which it is eligible under XRB A1.

64. Optionality could provide flexibility for entities with particular group-reporting, financing or user circumstances. However, permitting multiple reporting bases within a tier could reduce comparability across public sector entities, complicate whole-of-government and other group consolidations, create additional audit and systems requirements, and increase capability and maintenance demands across the reporting ecosystem.

65. Consistency and accountability are particularly important in government reporting. On balance, the potential benefits of allowing optionality do not outweigh the trade-offs. Accordingly, optionality is not supported for public sector reporting because multiple reporting bases would increase consolidation challenges and reduce comparability across the public sector reporting.

Proportionality within Tier 2

66. Tier 2 currently achieves proportionality through reduced disclosure requirements. A key question for this review is whether a proportionality mechanism remains necessary for the Tier 2 population and, if so, whether the current RDR approach provides meaningful relief in practice.

67. The assessment therefore needs to consider how Tier 2 entities use the available disclosure concessions, whether those concessions materially reduce preparation and audit effort, and whether the remaining disclosures continue to meet users' accountability and decision-making needs. This is distinct from whether the current Tier 2 eligibility criteria and thresholds are appropriate, which is considered in the separate tiers and thresholds paper. The focus here is on the reporting mechanism once an entity is in Tier 2.

68. For central government entities, Tier 2 proportionality also operates alongside Treasury reporting and consolidation requirements. Departments are required to use Crown accounting policies for financial information submitted to the Treasury, meaning that reduced disclosures in an entity's GPFR do not necessarily determine the information required for whole-of-government reporting. [47] This is a separate consideration from local government, which is not consolidated into the Government reporting entity.

69. Local government operates differently because local authorities are not consolidated into the Government reporting entity. For Tier 2 local government entities, the proportionality question therefore relates more directly to whether RDR reduces the preparation and audit burden of

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

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

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

Framework interactions between the Tier 1 and Tier 2

71. The Tier 2 framework cannot be considered independently of Tier 1. Given the shared recognition and measurement basis, it supports movement between tiers, reduces accounting differences within groups and whole-of-government consolidation, and enables shared systems, guidance and capability across the public sector reporting ecosystem.

72. A change to the Tier 1 standards basis would therefore have implications for Tier 2. Retaining a common recognition and measurement basis across both tiers would preserve the current level of interoperability. Alternatively, adopting a separate recognition and measurement framework for Tier 2 could provide greater simplification, but would need to be assessed against the resulting implications for movement between tiers, group reporting, systems, capability, ongoing maintenance and transition.

73. The Tier 1 framework should therefore be assessed first, with the Tier 2 assessment then considering whether proportionality is best achieved through reduced disclosures within the same standards base or through a separate simplified framework. This distinction is particularly relevant to options such as IFRS for SMEs and locally modified standards, where greater simplification may involve departing from the Tier 1 recognition and measurement basis.

Analysis of framework options

74. The analysis applies the framework-level criteria outlined in the **PBE sector overview paper**. Tier 1 and Tier 2 are assessed separately because an option that is appropriate for the full Tier 1 population may not provide sufficient proportionality for Tier 2, while greater Tier 2 simplification may affect interoperability with Tier 1.

75. The Tier 1 assessment considers the broader implications of each standards framework. The Tier 2 assessment applies the same criteria to eligible Tier 2 public sector entities, with additional consideration of proportionality, movement between tiers, group reporting, systems alignment and capability.

76. The summary assessments illustrate the relative strengths and trade-offs identified against the assessment criteria. No fixed weightings have been assigned to individual criteria, and the options are not ranked in order of preference.

Tier 1 public sector reporting framework assessment

Preliminary summary assessment across key criteria

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

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

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

🟢 Strong fit / low concern 🟠 Mixed fit / trade-off concerns 🔴 Significant trade-off concerns

Option A: PBE Standards based on IPSAS

Reporting framework overview

77. Under the current framework, Tier 1 public sector PBEs apply PBE Standards that are primarily based on IPSAS Standards. The suite also includes requirements based on IFRS Accounting Standards and domestic requirements for matters not addressed by IPSAS Standards.

78. Retaining the current framework would mean keeping the existing primarily IPSAS-based PBE Standards for Tier 1. This would not prevent targeted improvements, such as enhanced implementation support reflecting the New Zealand context or changes to particular disclosure requirements, where these could address identified concerns without moving to a different reporting framework. Further information on the current PBE Standards framework is provided in the current PBE Standards fact sheet in Appendix 3.

Implications for Tier 1 public sector entities

79. The current framework has a strong public-sector focus. IPSAS Standards are developed for governments and other public sector entities and include requirements addressing public-sector transactions and reporting circumstances. This reflects the rationale for the current PBE framework, under which IPSAS Standards were considered a more appropriate basis for PBE reporting than continuing to use an IFRS-based framework adapted for PBEs, given that IFRS Accounting Standards are developed primarily for capital-market users.[49] New Zealand can contribute views through the IPSASB standard-setting process and determine through its domestic standard-setting process whether modifications or additional requirements are needed for the New Zealand context.

80. The central and local government evidence discussed above reinforces the need for a framework that can accommodate significant and complex public-sector reporting matters, including revenue and transfer programmes, financial instruments, specialised assets, infrastructure and complex groups. Moving to a different reporting framework would not in itself remove the underlying complexity of these transactions, assets and arrangements.

81. The current framework is already embedded in New Zealand public sector reporting and is supported by an existing preparer, audit and standard-setting ecosystem, together with established systems, guidance and reporting processes. Retaining the current framework would avoid the transition costs and disruption associated with moving to a different framework and preserve the existing recognition and measurement relationship between Tier 1 and Tier 2.

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

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

Overall observations

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

Option B: IFRS

Reporting framework overview

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

Implications for Tier 1 public sector entities

85. IFRS would provide a globally recognised reporting framework supported by extensive guidance, implementation material and a large international professional and systems ecosystem. New Zealand also has an established IFRS reporting ecosystem through the for-profit sector. This could support workforce and systems transferability and increase recognisability for users familiar with IFRS-based reporting.

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

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

Overall observations

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

Option C: Locally modified standards

Reporting framework overview

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

Implications for Tier 1 public sector entities

90. A key potential benefit is greater local relevance and flexibility to tailor requirements to the New Zealand public sector. The framework could respond more directly to New Zealand-specific transactions, accountability arrangements and policy settings. It could also provide greater scope for targeted simplification where existing requirements are unnecessarily complex or less relevant to the Tier 1 population, while retaining requirements needed for larger and more complex public sector entities.

91. Greater domestic control would also bring greater responsibility for developing, modifying and maintaining the framework. The XRB would need to maintain a coherent and technically robust suite capable of addressing complex public sector transactions, including specialised assets, transfers, group reporting and other matters arising in the New Zealand public sector. Although using an established source framework would reduce the need to develop requirements from first principles, the XRB would remain responsible for assessing, adapting, consulting on and maintaining the New Zealand requirements over time. Further detail on the possible development approach and associated XRB resourcing, capability and delivery implications is provided in the separate paper **Possible approach to the development of locally modified standards.**

92. The effect on international alignment and comparability would depend on the source framework and the extent of New Zealand modification. Greater domestic tailoring could reduce direct alignment with IPSAS or another internationally recognised framework and make New Zealand

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

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

Overall observations

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

Option D: Australian-adapted IFRS framework (PS)

Reporting framework overview

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

Implications for Tier 1 public sector entities

96. The main potential benefit is stronger trans-Tasman alignment and comparability. A closely aligned framework could increase the transferability of professional capability, systems, guidance and implementation experience between New Zealand and Australia, depending on the extent of alignment achieved. It would also retain a strong connection to the wider IFRS reporting ecosystem.

97. An Australia-aligned approach would still need to be assessed against New Zealand-specific user needs, reporting circumstances and accountability requirements. Decisions would be required about which Australian public-sector requirements should be adopted, adapted or replaced with New Zealand-specific requirements. Closer alignment with Australia would therefore not remove the need for domestic standard-setting judgement. This is consistent with the separate Australia paper, which notes that New Zealand-specific modifications may still be required under an Australia-aligned approach.

98. Moving to an Australia-aligned framework would involve significant transition from the current primarily IPSAS-based PBE Standards, with likely implications for accounting policies, systems, training, audit approaches and wider reporting processes. A different Tier 1 recognition and measurement basis would also affect the current coherence between Tier 1 and Tier 2, which is considered further in the Tier 2 assessment. Ongoing maintenance would require New Zealand to monitor relevant Australian and IFRS developments together with any New Zealand-specific requirements. Licensing and other legal implications associated with the IFRS-based source

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

Overall observations

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

Tier 2 public sector reporting framework assessment

100. The Tier 2 assessment starts from the current relationship with Tier 1, under which both tiers apply the same recognition and measurement requirements and Tier 2 achieves proportionality through reduced disclosures. The assessment therefore considers whether the current RDR approach remains proportionate for eligible public sector entities or whether an alternative approach would provide sufficient benefits to justify change. The assessment should therefore be read alongside the analysis of user and accountability needs in paragraphs 39–43. At this stage, staff have not identified sufficient evidence to conclude either that the current disclosure concessions are working effectively or that they are not working effectively.

101. The relationship between the Tier 1 and Tier 2 standards basis is also relevant to the assessment. A common recognition and measurement basis supports movement between tiers, group reporting, consolidation, systems alignment and shared capability. Conversely, applying different recognition and measurement frameworks across the two tiers would reduce the interoperability that exists under the current framework. These considerations are assessed as characteristics of each Tier 2 option rather than by modelling particular combinations of Tier 1 and Tier 2 frameworks.

Evidence on the use of RDR

102. The availability of a disclosure concession does not indicate how frequently it is used or the extent to which it reduces preparation and audit effort in practice. Staff have not identified an authoritative dataset or established sufficient evidence on which RDR concessions Tier 2 public sector entities use, how frequently they use them, whether entities voluntarily provide disclosures they are permitted to omit, or the extent to which Tier 2 reporting effort arises from disclosure requirements rather than recognition and measurement, valuation, systems or audit requirements.

103. This remains an evidence gap for the Tier 2 proportionality assessment. The assessment therefore needs to consider both whether RDR concessions provide meaningful relief to preparers and whether the remaining disclosures continue to provide information useful for the accountability and decision-making needs of users of Tier 2 public sector GPFRs. This evidence gap will be addressed through entity-level evidence and targeted outreach, with any remaining gaps tested through the ASF public discussion paper.

Preliminary summary assessment across key criteria

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

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

Option A: PBE Standards based on IPSAS with RDR

Reporting framework overview

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

Implications for Tier 2 public sector entities

105. Retaining the current Tier 2 framework supports movement between Tier 1 and Tier 2 without requiring a change in recognition and measurement requirements, uses the existing PBE reporting ecosystem and avoids the transition costs associated with moving to a different framework. A common recognition and measurement basis can also reduce accounting differences for group reporting and consolidation. The XRB also retains the ability to determine appropriate disclosure concessions for New Zealand Tier 2 PBEs.

106. The key question is whether disclosure-only relief addresses the main sources of cost and complexity for the Tier 2 population. Tier 2 entities continue to apply the same recognition and measurement requirements as Tier 1, which can still involve significant judgement, valuation, systems and audit requirements even where disclosures are reduced.

Overall observations

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

Option B: IFRS with RDR

Reporting framework overview

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

Implications for Tier 2 public sector entities

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

Overall observations

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

Option C: IFRS for SMEs

Reporting framework overview

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

Implications for Tier 2 public sector entities

112. IFRS for SMEs would provide broader proportionality than the current PBE Standards RDR because its simplifications extend beyond disclosures to recognition and measurement requirements. This could reduce judgement, application effort and implementation burden for some Tier 2 entities, particularly those with less complex activities and transactions. Revisions are expected to be limited to once every three years, which could also reduce the frequency of ongoing accounting changes. IFRS for SMEs has international recognition, being required or permitted in 85 jurisdictions.[50]

113. However, IFRS for SMEs was not developed as a public-sector reporting framework and does not provide the same coverage of public-sector transactions, accountability relationships and service performance information as the current PBE Standards. Its omitted topics and simplified requirements may have different implications for larger or more complex Tier 2 public sector entities, depending on their activities and transactions. Applying it as a New Zealand Tier 2 public sector reporting framework may therefore require additional public-sector-specific requirements, supplements or implementation material. This could reduce some of the simplicity of using a self-contained standard and create additional ongoing maintenance requirements in New Zealand. It would also not replicate the Australian Tier 2 public sector approach. Eligible Australian Tier 2 public sector entities apply the recognition and measurement requirements of Australian Accounting Standards, including relevant public-sector and not-for-profit requirements, together with simplified disclosures under AASB 1060.

114. IFRS for SMEs is protected by IFRS Foundation's licensing requirements. Reproducing, adapting or incorporating its requirements into New Zealand standards and supporting materials would be subject to the applicable licensing arrangements. New Zealand-specific departures could also affect whether financial statements could state compliance with IFRS for SMEs because that statement is available only where all the requirements of the Standard are met. [51]

115. IFRS for SMEs has its own simplified recognition and measurement requirements and would therefore introduce a separate accounting basis from the Tier 1 frameworks under consideration. This would reduce interoperability between the tiers, make movement between them more complex and create additional accounting differences for mixed-tier groups and consolidation.

116. Adoption would also require changes to accounting policies, reporting templates, systems, guidance, education and audit methodologies. Preparers, auditors, advisers and standard-setting staff would need to develop capability in a framework that is not currently part of the New Zealand reporting environment. Supporting a separate Tier 2 recognition and measurement basis would also have implications for training, workforce capability and the resources required across the reporting ecosystem.

Overall observations

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

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

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

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

Option D: Locally modified standards

Reporting framework overview

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

Implications for Tier 2 public sector entities

119. A locally modified framework would provide greater flexibility to tailor recognition, measurement, presentation and disclosure requirements to the circumstances of eligible New Zealand public sector entities. Simplification would not need to be limited to disclosures and could address aspects of recognition, measurement or presentation that are considered disproportionately complex for the Tier 2 population. The potential for greater simplification and local relevance is a reason for including a locally modified framework as a Tier 2 option.

120. If Tier 1 remained on the current primarily IPSAS-based PBE Standards, introducing a separate locally modified framework for Tier 2 would create a different recognition and measurement basis between the tiers. This would reduce interoperability and comparability, make movement between the tiers more complex and create additional accounting differences for mixed-tier groups and whole-of-government consolidation. It would also require separate systems, reporting templates, guidance, training and reconciliation processes.

121. If Tier 1 also moved to a locally modified framework, a common recognition and measurement basis could be retained, with proportionate Tier 2 requirements incorporated within the same framework. This would preserve greater coherence and movement between the tiers while allowing broader Tier 2 simplification. However, the development, international-alignment, transition, resourcing and ongoing maintenance implications identified under Tier 1 Option C would continue to apply.

Overall observations

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

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

Reporting framework overview

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

Implications for Tier 2 public sector entities

124. An Australia-aligned Tier 2 framework could support closer trans-Tasman comparability and potentially greater transferability of professional capability, systems, guidance and implementation experience. It would also draw on an IFRS-based framework that includes Australian public-sector adaptations.

125. The Australian Tier 2 model generally retains the same recognition and measurement requirements as Tier 1, including relevant public-sector and not-for-profit requirements, while providing simplified disclosures through AASB 1060. The principal difference from the current New Zealand Tier 2 approach would therefore be the underlying standards base rather than a fundamentally different proportionality mechanism.

126. The extent of interoperability with Tier 1 would depend on whether the two tiers ultimately share a common recognition and measurement basis. Where different bases are applied, there would be implications for movement between tiers, group reporting, systems, capability and consolidation. Moving to an Australia-aligned framework would also involve transition, licensing and ongoing maintenance implications for the wider reporting ecosystem.

Overall observations

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

Summary observations and framework options for consultation

128. Taken together, the assessment highlights the interrelationship between the Tier 1 and Tier 2 framework decisions. The Tier 1 standards basis has implications for Tier 2 because the current framework uses a common recognition and measurement basis, while the extent of simplification required for Tier 2 also needs to be considered separately.

129. For Tier 1, the options considered present different benefits and trade-offs across technical fitness, local relevance, international alignment, transition, ecosystem and ongoing maintenance. The current PBE Standards provide an established public-sector-focused framework, while the alternative options offer different potential benefits, including closer trans-Tasman alignment, greater international familiarity or greater domestic tailoring.

130. The assessment also indicates that not all current reporting challenges necessarily arise from the reporting framework. Some pressures, including those associated with complex transactions and asset valuations, may arise from the underlying activities, systems, data, valuation processes or audit environment. Where this is the case, targeted improvements or implementation support may be more effective than changing the reporting framework.

131. For Tier 2, other options may provide different degrees or forms of simplification, with corresponding implications for technical fit, interoperability, transition and the wider reporting ecosystem. A key question is whether the current RDR mechanism provides appropriate proportionality for eligible Tier 2 public sector entities and whether it is useful.

132. All of the Tier 1 and Tier 2 framework options assessed in this paper will be taken forward to the public discussion paper. Consultation will seek views on the relative benefits and trade-offs of each option, the appropriate degree of proportionality for Tier 2, the significance of trans-Tasman and international alignment, and whether identified reporting challenges are best addressed through changes to the framework or through more targeted improvements.

Extract of public discussion paper

133. We propose including the following blue extract in the public discussion paper to summarise the linked Tier 1 and Tier 2 public sector framework analysis and test the proposed direction with stakeholders. The Tier 1 and Tier 2 summary assessments shown in the main analysis can be adapted as supporting discussion paper illustrations.

134. The extract presents the shared public sector framework context once, then separates the Tier 1 standards-basis question from the Tier 2 proportionality question. It also summarises the principal alternative frameworks considered without repeating this detailed paper analysis.

135. The proposed text may be refined during final drafting of the discussion paper to ensure overall coherence and flow.

Background for Tier 1 and Tier 2 public sector reporting

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

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

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

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

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

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

What the assessment is telling us

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

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

For Tier 1, the review considers four framework options:

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

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

For Tier 2, the review considers five framework options:

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

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

How the Tier 1 and Tier 2 decisions interact

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

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

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

Central and local government, financing and capital markets

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

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

Questions for stakeholders

Questions applying to both Tier 1 and Tier 2

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

Tier 1 questions

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

Tier 2 questions

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

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

Questions for the Board

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on whether the analysis of the Tier 1 and Tier 2 public sector reporting frameworks is balanced and sufficiently complete, including the key benefits, trade-offs and evidence gaps identified?

Q2. Does the Board have any **FEEDBACK** on the framework options proposed to be taken forward to the public discussion paper for Tier 1 and Tier 2, including how proportionality and the interaction between the two tiers have been considered?

Q3. Does the Board have any **FEEDBACK** on the proposed discussion paper framing and stakeholder questions outlined in blue text, including whether they are likely to elicit useful evidence on current reporting challenges, Tier 2 proportionality, user needs and the practical significance of closer Australian alignment?

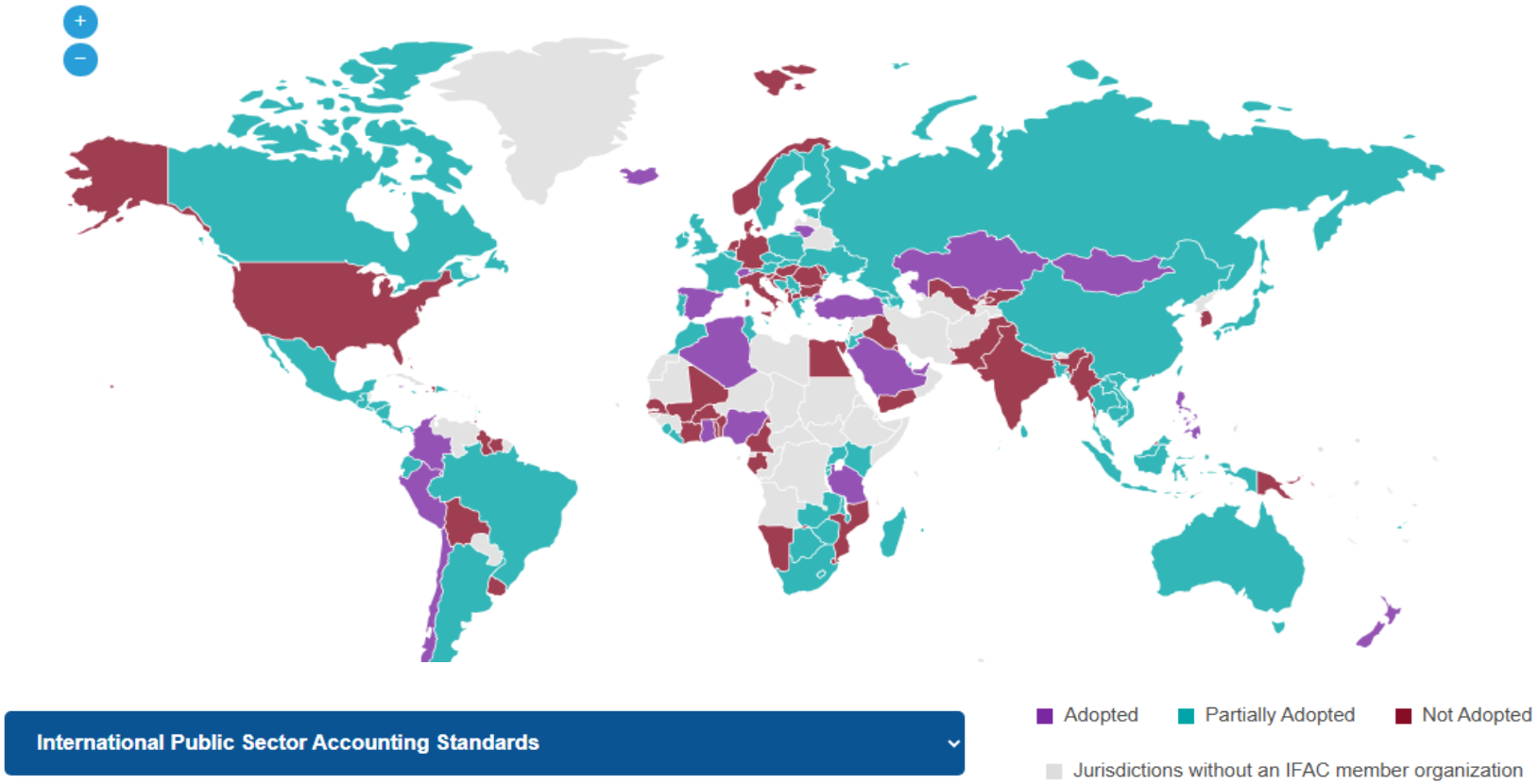
Appendix contents

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

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

Appendix 8	Tier 1 and 2 public sector overview and framework options analysis	Provides an overview of the paper, alongside the detailed framework analysis across Tier 1 and Tier 2.	Board paper only

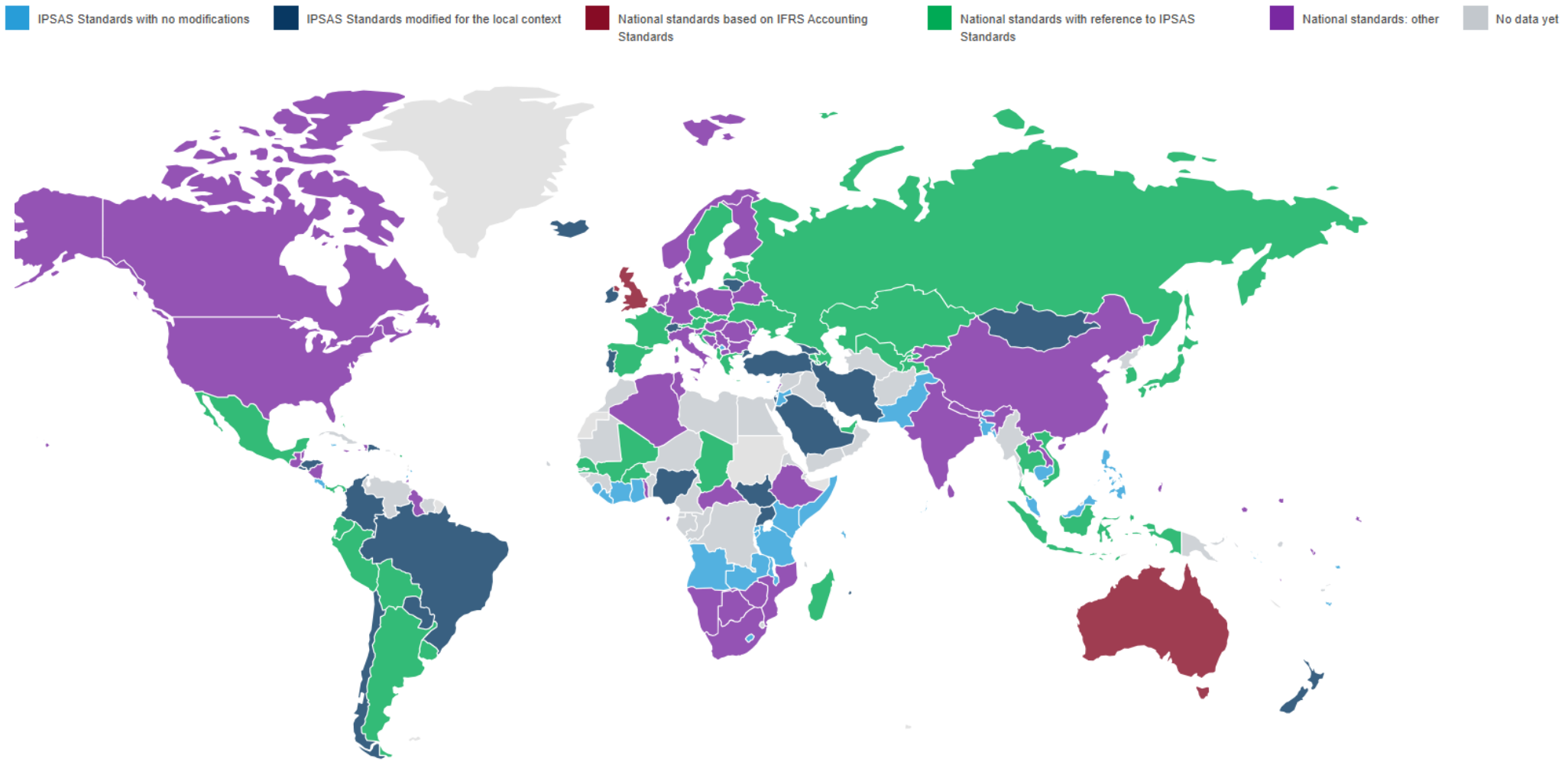
Appendix 1 – IPSAS international adoption[52]



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

[52] Source: Adoption Status | IFAC, retrieved 14 August 2026
* Source: Methodology for Assessing Adoption | IFAC

Appendix 2 – IPSAS international adoption with modifications[53]



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

Appendix 3 – PBE Standards factsheet

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

Fact Sheet

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

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

What the IPSAS framework is

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

IPSAS®

At a glance

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

Who IPSAS is mainly designed for

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

IPSAS is an international public sector benchmark

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

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

Key characteristics of the IPSAS framework

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

DRAFT

PBE Standards is based on IPSAS and tailored for New Zealand

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

How PBE Standards works in practice

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

Recognition requirements determine what items are reported

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

Measurement requirements determine how reported items are valued

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

Presentation and disclosure requirements help communicate items to users

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

New Zealand reduced-disclosure context

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

PBE Standards are not a single accounting standard

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

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

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Appendix 4 – 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

DRAFT

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

Measurement requirements determine how reported items are valued

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

Presentation and disclosure requirements help communicate items to users

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

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

New Zealand reduced-disclosure context

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

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

IFRS is not a single accounting standard

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

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

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Appendix 5 – Australian Accounting Standards factsheet

Australian Accounting Standards (**AASB Standards**) Fact Sheet

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

Overview of the AASB framework

What AASB Standards are

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

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

Australian Government
Australian Accounting Standards Board

At a glance

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

Who AASB Standards are mainly designed for

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

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

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

How AASB Standards works in practice

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

Australian reduced-disclosure context

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

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

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

High-level comparison of AASB Standards and IPSAS reporting frameworks

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

Illustrative approaches for measurement:

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

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

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

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

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Changes to the factsheet discussed at the August NZAB meeting highlighted in blue

Appendix 6 – Locally modified standards – Indicative approach

Consider locally modified standards

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

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

Understanding the purpose of locally modified standards

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

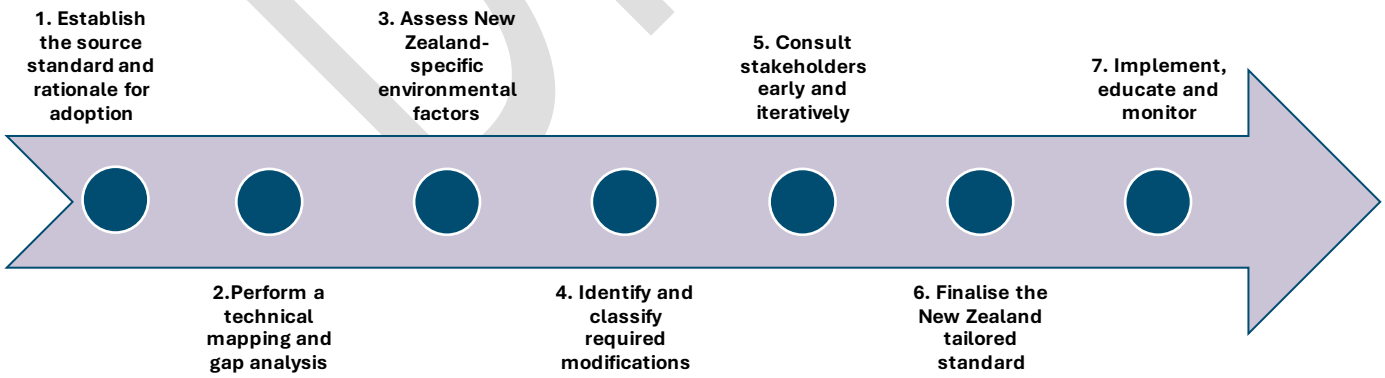
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

Outline of the possible process

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

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

Indicative steps to follow when developing this framework



1. Establish the source standard and rationale for adoption

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

Relevant considerations might include:

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

2. Perform a technical mapping and gap analysis

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

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

3. Assess New Zealand-specific environmental factors

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

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

4. Identify and classify required modifications

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

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

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

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

Focus on key considerations

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

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

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

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

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

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

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

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

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

Criteria for modifying *Presentation* requirements

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

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

Criteria for modifying *Disclosure* requirements

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

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

5. Consult stakeholders early and iteratively

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

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

6. Finalise the New Zealand-tailored standard

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

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

7. Implement, educate and monitor

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

- Publish implementation guidance, FAQs, and illustrative examples;

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

Consider the potential advantages

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

Consider the potential disadvantages

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

Appendix 7 – 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.

Overview of the IFRS for SMEs framework

IFRS for SMEs
Accounting Standard

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.

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.

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.

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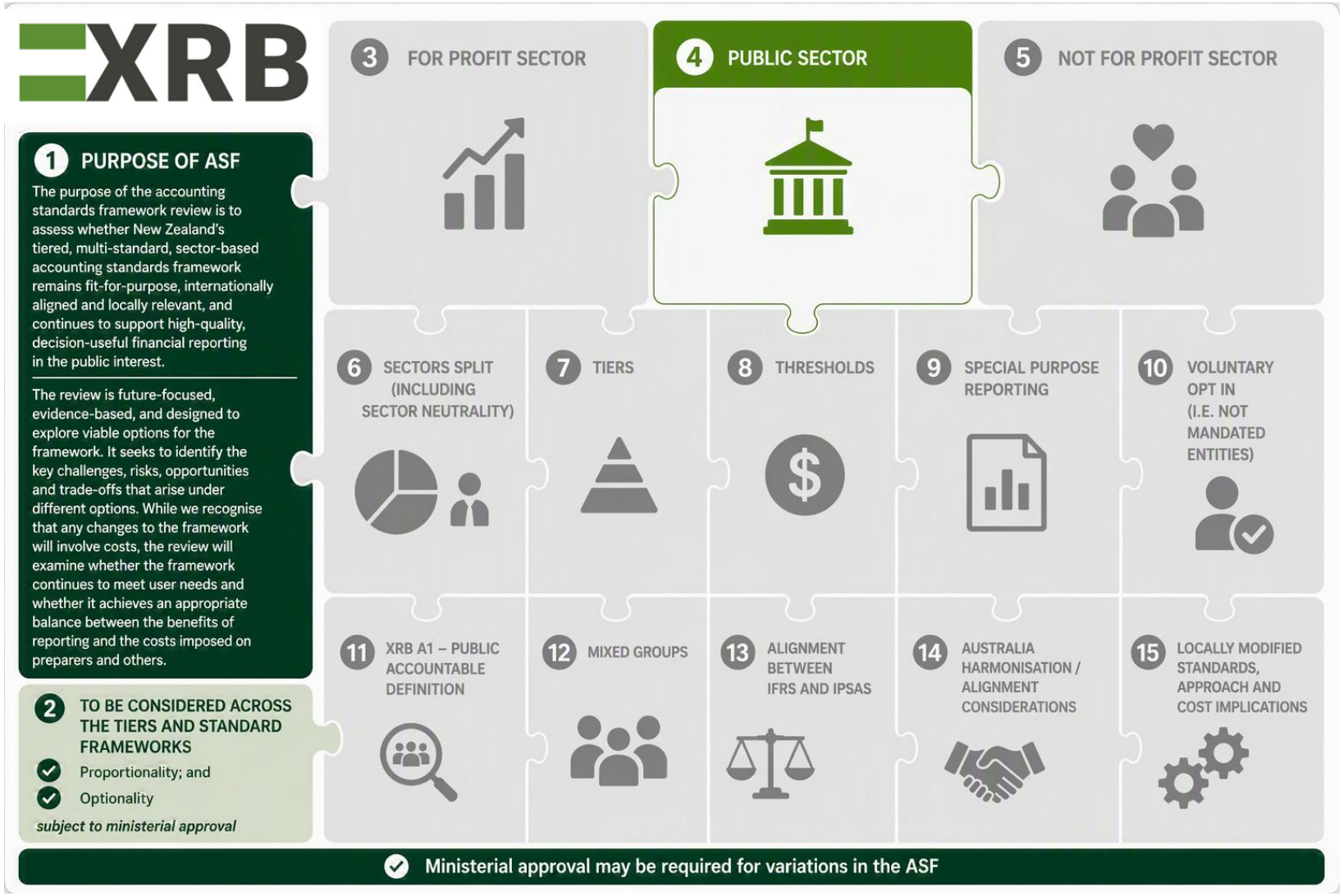
Appendix 8 – Tier 1 and 2 public sector overview and framework options analysis

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

Tier 1 and Tier 2 public sector overview and context

ASF Review – Where the public sector review fits in

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



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

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

Tier 1 public sector

Full PBE Standards
Full recognition, measurement, presentation and disclosure requirements.

Tier 2 public sector

PBE Standards RDR
Same recognition and measurement as Tier 1, with reduced disclosure requirements.

Shared standards base

Primarily IPSAS-based, supplemented by IFRS and domestic requirements where relevant.

Movement between tiers currently does not result in changes to recognition and measurement.

Why IPSAS was selected as the primary reference point

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

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

Legislative and regulatory environment

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

1 Legislation

- Public Finance Act
- Crown Entities Act
- Local Government Act;
- and other enactments create GAAP reporting obligations

2 XRB A1

Determines the applicable sector, tier and accounting requirements once an entity is within the ASF.

3 Reporting basis

- Tier 1 applies **full PBE Standards**;
- Eligible Tier 2 entities may apply **PBE Standards RDR.**

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

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

Tier 1 public sector entities

A public sector entity that has *public accountability* as defined under XRB A1 **OR** **A '*large*' *PBE* with total expenses > $33 million**

Tier 1 public sector entity characteristics

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

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

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

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

Tier 2 public sector entities

Tier 2 public sector entity characteristics

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

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

A public sector entity that has no public accountability	**OR**	**Has total expenses > $5 million but ≤ $33 million (not 'large' as per XRB A1); OR elects to apply Tier 2 PBE requirements**

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

Characteristics of the reporting population

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

Tier 1

189 total indicative public-sector entities.

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

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

Tier 2

2,602 total indicative public sector entities.

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

Tier 2 schools adjusted population: ~790 entities.*

What matters for this review

Schools materially affect the composition of the Tier 2 population.

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

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

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

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

International practice, alignment and comparability

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

53 jurisdictions*

Reporting on a full accrual basis in 2024.

35 jurisdictions*

Used IPSAS directly, with modifications, or as a reference point for their national public sector standards.

3 jurisdictions*

Used national standards based on IFRS Accounting Standards.

Australia

Key trans-Tasman comparator for the ASF review.

Selected comparators in the paper**

NZ

Current primarily IPSAS-based PBE framework

AU

IFRS-based with public sector adaptations

UK

IFRS adapted and interpreted for central government

CA

Domestic PSAS; IPSAS principles considered in developing future standards

US

Separate domestic public-sector standards (non-IFRS / non-IPSAS)

CN

National Government Accounting Standards; internationally informed domestic framework

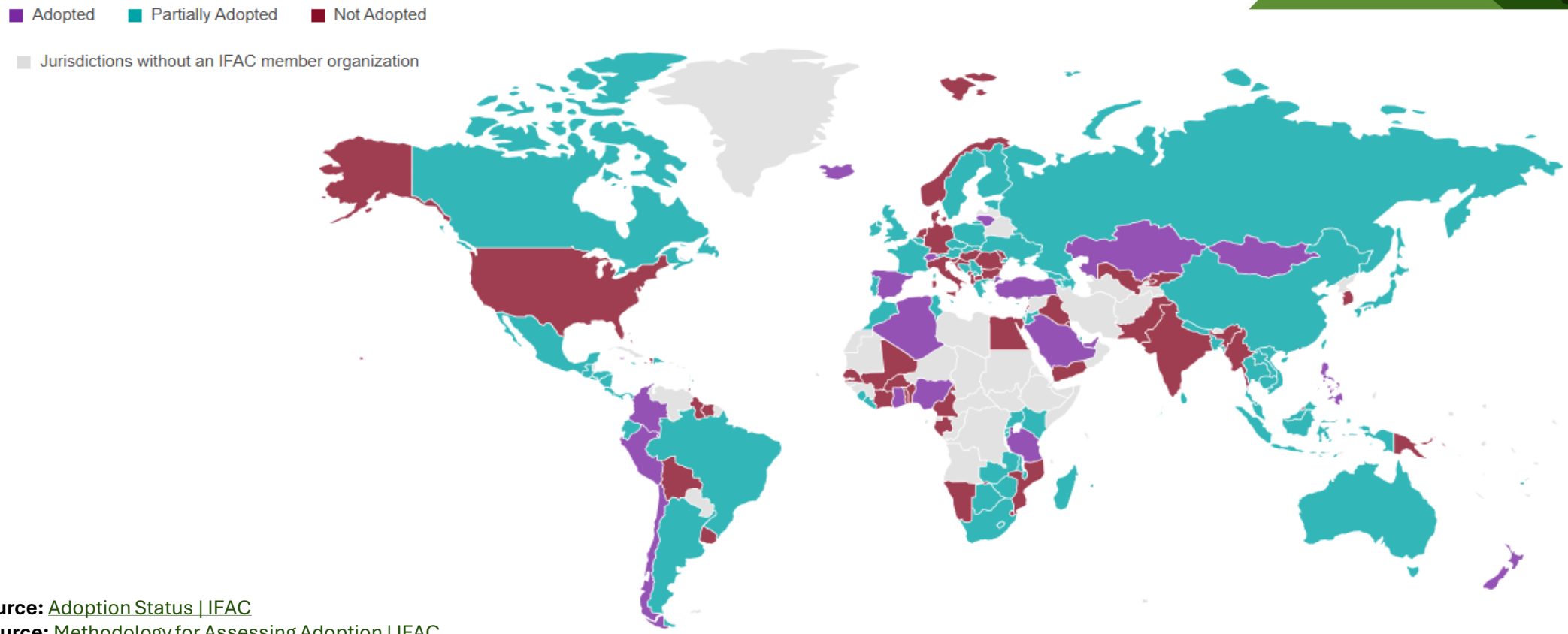
How to interpret alignment

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

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

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

IPSAS international adoption



Source: Adoption Status | IFAC
***Source:** Methodology for Assessing Adoption | IFAC

Methodology for Assessing Adoption:*

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

User focus – public sector Tier 1 and 2 entities



Primary users

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

Other users

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



Nature of primary user needs

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



Implications for Tier 1 and 2 reporting

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

Tier 1 and Tier 2 public sector key challenges

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

Key Challenges

1. Complexity of requirements

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

2. Mixed group reporting

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

3. Constrained resources and workforce mobility

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

4. Australian comparability

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

5. Change fatigue and cost of staying current

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

6. Accountability and usefulness

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

Framework coherence considerations

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

1 Tier 1 decision

Choose the standards basis that is technically fit for the full Tier 1 public-sector population.

A change in Tier 1 has consequences for Tier 2 if the common accounting basis is to be retained.

2 Tier 2 proportionality

Current RDR simplifies disclosures only.

Evidence is still needed on which concessions are used in the current suite of PBE Standards, whether they reduce preparation and audit effort, and whether remaining disclosures are useful.

3 Coherence & interoperability

Common recognition and measurement supports movement between tiers, mixed-tier groups, consolidation, systems, guidance and workforce capability.

A separate Tier 2 basis may simplify recognition and measurement, but would reduce this interoperability.

Central and local government may experience Tier 2 proportionality differently

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

Tier 1 public sector reporting framework options considered

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

Tier 1 public sector framework options



A.

PBE Standards based on IPSAS

Current framework and baseline.



B.

IFRS Accounting Standards

International alternative, designed primarily for for-profit reporting.



C.

Locally Modified Standards

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



D

Australian-adapted IFRS framework (PS)

IFRS-based approach with public-sector adaptations.

The Government Finance Statistics Manual 2014 (GFSM)

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

Tier 1 public sector framework options

PBE Standards based on IPSAS - International Public Sector Accounting Standards (IPSAS) are international accounting standards specifically developed for public sector entities, such as governments and other public benefit entities (PBEs). IPSAS are developed to reflect the types of transactions and objectives commonly found in the public sector. PBE Standards are currently based on IPSAS. IPSAS is used in approx. 80 jurisdictions – although a number of these jurisdictions remain cash based. Full accrual IPSAS adapted domestically is used in approx. 30 jurisdictions.

For a comparison of IPSAS vs IFRS, see agenda item 8.2a.

A: PBE IPSAS

B: IFRS

C: Locally Modified Standards

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

IFRS -International Financial Reporting Standards (IFRS) are international accounting standards primarily developed for for-profit entities and capital markets. IFRS are issued by the International Accounting Standards Board (IASB) and are focused on providing information useful to investors, lenders, and other capital providers in making economic decisions. IFRS are widely used internationally for listed companies and other for-profit entities. IFRS is used in 161 jurisdictions but only used in 3 jurisdictions for public sector reporting (including Australia) where they are adapted accordingly.

Australia aligned public sector standards - Australian Accounting Standards are based on IFRS but include public sector and NFP adaptations, including additional standards tailored to the public sector and Australia-specific requirements.

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

Tier 1 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

1. Staff prepared the options analysis of the alternative frameworks that was considered viable to this tier.
2. Each viable option is evaluated by considering its benefits and trade-offs and assessing it against a set of key criteria.
3. The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

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

Tier 2 public sector reporting framework options considered

Tier 2 determines how proportionality should be delivered.

Tier 2 public sector framework options



A.

PBE Standards based on IPSAS with RDR

Current common recognition and measurement basis with reduced disclosures.



B.

IFRS Accounting Standards with RDR

Full IFRS recognition and measurement with reduced disclosures.



C.

IFRS for SMEs

Separate simplified recognition, measurement and disclosure framework.



D.

Locally Modified Standards

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



E.

Australian-adapted IFRS framework (PS) with RDR

Australian-style PS basis IFRS based plus reduced disclosures.

The Government Finance Statistics Manual 2014 (GFSM)

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

Tier 2 public sector framework options explored

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

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

A: IPSAS with RDR

B: IFRS with RDR

C: IFRS for SMEs

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

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

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

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

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

Tier 2 public sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

1. Staff prepared the options analysis of the alternative frameworks that were considered viable to this tier.
2. Each viable option is evaluated by considering its benefits and trade-offs and assessing it against a set of key criteria.
3. The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

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

☆ Tier 2 NFP key criteria are consistent to that of Tier 1 except for the addition of: → **Move between tiers -** Interoperability with Tier 1 (accounting and workforce)

Tier 1 public sector alternative framework key criteria analysis

Tier 1 public sector entities – summary assessment across key criteria

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

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

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

- 🟢 Strong fit / low concern
- 🟠 Mixed fit / trade-off concerns
- 🔴 Significant trade-off concerns

Option A – PBE Standards based on IPSAS



Pros

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



Cons

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

Option A – PBE Standards based on IPSAS

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

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

Option B – IFRS



Pros

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



Cons

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

Option B – IFRS

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

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

Option C – Locally modified standards



Pros

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



Cons

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

Option C – Locally modified standards

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

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

Option D – Australian-adapted IFRS framework (PS)



Pros

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



Cons

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

Option D – Australian-adapted IFRS framework (PS)

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

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

Tier 2 public sector alternative framework key criteria analysis

Tier 2 public sector entities – summary assessment across key criteria

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

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

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

- 🟢 Strong fit / low concern
- 🟠 Mixed fit / trade-off concerns
- 🔴 Significant trade-off concerns

Option A – PBE Standards based on IPSAS with RDR



Pros

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



Cons

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

Option A – PBE Standards based on IPSAS with RDR

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

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

Option B – IFRS with RDR



Pros

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



Cons

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

Option B – IFRS with RDR

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

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

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

Option C – IFRS for SMEs

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

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

Option D - Locally modified standards



Pros

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



Cons

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

Option D - Locally modified standards

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

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

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



Pros

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



Cons

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

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

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

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

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	12 October 2026
Subject:	**Accounting Standards Framework review – Tier 1 and Tier 2 not-for-profit public benefit entities reporting framework review**
Date:	1 October 2026
Prepared by:	Tereza Bublikova
Through:	Nimash Bhikha; Michelle Lombaard

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

Purpose

1. This paper assesses the current Tier 1 and Tier 2 not-for-profit public benefit entities (**NFP**) reporting framework as part of the Accounting Standards Framework (**ASF**) review. It focuses on entities required to apply Tier 1 and Tier 2 NFP reporting requirements. The analysis is intended to support the Board in determining which framework options and related questions should be included in the public discussion paper for stakeholder feedback. It does not identify a preferred option or propose that the current framework be retained or replaced.

2. This paper considers how the current Tier 1 and Tier 2 NFP reporting framework operates and compares it with selected alternative reporting framework options. It identifies key differences, trade-offs and practical implications for mandated Tier 1 and Tier 2 NFP 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 and Tier 2 NFP population and should be read alongside the PBE sector overview paper, which addresses matters relevant across public benefit entities.

Recommendations

4. We recommend the Board:

   (a) **NOTE** the analysis of the current Tier 1 and Tier 2 NFP 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 and Tier 2 NFP 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 and how to read this paper

5. This paper focuses on NFP entities that are required to apply the Tier 1 or Tier 2 reporting requirements under the ASF.

6. Unless otherwise stated, references in this paper to **Tier 1 or Tier 2 NFP** mean Tier 1 and Tier 2 not-for-profit public benefit 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 NFP 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.

8. Unless otherwise stated, this paper focuses on mandated Tier 1 and Tier 2 NFP entities and excludes entities that voluntarily opt to apply Tier 1 or Tier 2 reporting requirements. We note that Tier 2 NFPs who do not consider the reporting requirements to be suitable for their user needs can report under the Tier 1 NFP reporting requirements. Such an election will remain in any potential ASF structure.

9. This paper assesses reporting framework options and their suitability for mandated Tier 1 and Tier 2 NFP 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.

10. This paper should be read together with the PBE sector overview paper, which provides the common context for the public benefit entities (**PBEs**) reporting framework, including the development of the current framework, International Public Sector Accounting Standards (**IPSAS**) convergence into Public Benefit Entity International Public Sector Accounting Standards (**PBE Standards**), and the ASF common assessment criteria used to analyse each viable reporting framework option. Additionally, the papers on IPSAS adoption around the world, Alignment between IPSAS and IFRS and Reporting Requirements in Australia for public sector and private NFP entities, may also provide useful context for the Tier 1 and Tier 2 NFP framework options considered.

11. This paper does not repeat that common context in the PBE overview paper. Instead, it applies that context to the mandated Tier 1 and Tier 2 NFP population. For this assessment, the relevant starting point is the current Tier 1 and Tier 2 NFP IPSASB-based reporting framework in New Zealand.

Content

Section in the tier papers	Purpose of the section
Background and context for Tier 1 and Tier 2 NFP entities	Provides background on the current Tier 1 and Tier 2 NFP reporting framework, including its development, objectives, operating environment, and matters identified through previous review work.
Legislative and regulatory environment	Explains the legislative and regulatory settings that determine which entities prepare GAAP-compliant financial statements, regulatory environment and sector and tier allocation.
Characteristics of Tier 1 and Tier 2 NFP 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 international reporting approaches for NFP entities and the extent to which international alignment, comparability and trans-Tasman consistency are relevant considerations for New Zealand NFPs.
Practical challenges with the current Tier 1 and Tier 2 NFP framework	Explains how the current framework operates in practice, including identified main 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 within Tier 1 and Tier 2 NFP	Considers whether the framework options support flexibility while maintaining coherence, comparability, understandability and operability across the tier and wider not-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.
Appendix Contents	Papers to be included in the Discussion Paper: Factsheet on frameworks considered, Information about a locally modified standards approach, and detailed assessments of each Tier 1 and Tier 2 NFP reporting framework option against the framework-level evaluation criteria Papers not to be included in the Discussion Paper: High-level financial and operational profile of Tier 1 and Tier 2 registered charities and examples of international approaches to setting NFP reporting standards and guidance.

Background and context for Tier 1 and Tier 2 NFP entities

Current Tier 1 and Tier 2 NFP reporting framework

12. Parliament, through legislation, determines which entities are required to prepare GAAP-compliant financial statements. Once that obligation exists, the XRB's ASF determines the applicable sector, reporting tier and accounting requirements.[1] The current tiered ASF moved away from the previous sector-neutral approach by establishing separate for-profit and PBE reporting frameworks, while retaining an IFRS-based framework for Tier 1 and Tier 2 for-profit entities. The PBE reporting framework was developed based on International Public Sector Accounting Standards (IPSAS) standards and modified for the NFP context where appropriate.

13. We note that neither IFRS nor IPSAS reporting requirements are specifically designed for NFP entities. However, at the time the ASF was developed, these were the only internationally credible frameworks which could be used as a base for NFP reporting requirements. When the ASF was developed, PBE

[1] This distinction underpinned the 2011 Review of the Financial Reporting Framework, which led to the establishment of the XRB and gave it responsibility for setting accounting and assurance standards for entities required by legislation to report. See the section How the Tier 1 and Tier 2 NFP framework was developed for more details.

standards based on IPSAS were considered to be the most suitable starting framework, compared to IFRS profit orientated requirements.[2]

14. The 2011 Position Paper *ASF: A Multi Standards Approach* concluded that IFRS was becoming increasingly unsuitable as a base for PBE reporting due to its primary focus on investors, lenders and creditors rather than resource providers and service recipients. The paper anticipated that the different user-focus will lead to an increasing divergence between IFRS and IPSAS over time. Consequently, IPSAS was identified as a more appropriate foundation for PBE Standards because of its greater emphasis on accountability for service delivery and reporting service potential. The paper also acknowledges that there were no international standards specifically designed for NFP entities and concluded that developing a separate suite of NFP standards from scratch would be uneconomic. Instead, IPSAS was considered the most suitable foundation for NFP reporting. The paper also noted that NFP-specific language, examples and modifications would need to be incorporated into IPSAS-based PBE Standards to reflect the sector's circumstances and reporting needs.

15. Under the current ASF, Tier 1 NFP entities apply **PBE Standards based on IPSAS**. Tier 2 NFP entities apply PBE Standards based on IPSAS with reduced disclosure requirements **(PBE Standards with RDR)** which include full PBE Standards' recognition, measurement and presentation requirements, but with reduced disclosure requirements as specified by the External Reporting Board (**XRB**).

16. As a result, Tier 2 NFP entities generally report the same accounting outcomes as Tier 1 NFP entities, with differences primarily relating to the volume and detail of disclosures within the financial statements.

Role of Tier 1 and Tier 2 NFP within the ASF

17. Within the ASF, Tier 1 requires application of the full suite of Tier 1 PBE Accounting standards for NFP entities which contains those entities with public accountability and those that are large PBEs. Tier 1 is the default reporting tier which applies to all NFP entities, unless they meet the requirements of, and elect to report in, other reporting tiers.

18. Tier 2 is the proportionate reporting tier for NFP entities that do not have public accountability and are larger PBEs (greater than $5 million but less than $33 million of expenses). Its role is to provide a framework for entities where the smaller size and absence of public accountability support 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 New Zealand financial reporting ecosystem.

19. For Tier 1 and Tier 2 NFP comparable and useful information may assist resource providers and their representatives (such as donors, funders and grant providers) and service recipients and their representatives (such as members, beneficiaries and regulators) in making informed decisions about an entity's financial performance, financial position, stewardship of resources, accountability, compliance with funding arrangements. This information may also support decisions about providing resources to, or receiving services from, the entity. The general-purpose financial statements of these entities are written for this broad range of users.[3]

20. Sections Characteristics of Tier 1 and Tier 2 NFP entities and Information needs of users and preparers provide further context for the ASF review.

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

[3] The PBE Conceptual Framework provides additional discussion of the users of general purpose financial reports and the information needs of service recipients and resource providers (see Chapter 2, Objectives and Users of General Purpose Financial Reports)

How the Tier 1 and Tier 2 NFP framework was developed

21. Following the 2011 Review of the Financial Reporting Framework conducted by the Ministry of Economic Development, New Zealand's financial reporting regime was comprehensively reformed. The reforms established the External Reporting Board (XRB), replacing the Accounting Standards Review Board (ASRB), and gave it responsibility for setting accounting and assurance standards and determining the reporting requirements for different types of entities. [4] While the review proposed a tiered reporting framework for not-for-profit entities and envisaged simple-format reporting for smaller entities, it did not prescribe a particular reporting framework for NFPs. Instead, decisions about the underlying accounting standards were delegated to the XRB as part of the subsequent standard-setting process.

22. The current Tier 1 and Tier 2 NFP reporting framework became effective in April 2015 following New Zealand's move from differential reporting to a tiered approach for entities required to prepare GAAP-compliant financial statements. As part of developing the framework, NFP-specific guidance and modifications were introduced in selected standards where they were considered necessary to address transactions and circumstances commonly encountered by New Zealand NFP entities.

23. For Tier 2 NFP entities, this also involved developing a proportionate reporting tier that retained the same recognition and measurement requirements, with reporting relief provided mainly through reduced disclosures. This was designed to provide concessions for NFP entities where the costs of preparing disclosures would outweigh the benefits to users from those disclosures. Maintaining the same recognition and measurement criteria as Tier 1 NFP entities, helps users of Tier 2 NFP understand and compare the financial statements with Tier 1 NFP financial statements and helps NFPs who may transition into Tiers 1 over time, as their level of service delivery increases. [5]

24. This history is relevant as the current design of the Tier 1 and Tier 2 NFP reporting framework provides the starting point for considering whether the current framework remains suitable for those entities.

Developments informing the NFP framework review

25. The PBE framework review is being considered as part of the broader ASF review to assess whether the 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 reporting in the public interest. The review seeks to assess whether there is a compelling case for changes in the PBE framework from the current requirements, to ensure it is appropriate for the future.

26. The reporting environment for Tier 1 and Tier 2 NFP entities has evolved since the PBE framework became effective for NFP entities in 2015. Key changes include:

    - Growth in the size, scale and complexity of some NFP entities, including entities with complex structures, cross-border operations or more complex transactions. The value of GDP recorded by non-profit institutions[6] in the year ended March 2018 was $8.10 billion, compared with $6.23 billion in the March 2013 year (up 30 percent);
    - Increasing prevalence or significance of NFP entities operating through group structures, controlled entities or international networks, where consolidation, group reporting, interoperability and cross-border comparability may be relevant;

[4] For more information the background and context of the ASF, refer to Agenda Item 6.1a in the August 2026 Board pack.

[5] XRB A1, paragraph BC36 (incl. BC24) provides further insight into the rationale for adopting a Reduced Disclosure Requirements (RDR) approach for Tier 2 PBEs.

[6] The population of non-profit institutions (NPIs) in the Stats NZ 2018 satellite account is defined for statistical purposes and includes a broader range of entities across different legal forms and activities than the NFP population within the ASF, which is determined by the PBE definition and applicable financial reporting requirements. Although the populations are therefore not fully aligned, the NPI population includes entities within the ASF's NFP population, and the reported increase provides an indication of growth in the wider sector in which those entities operate.

- Legislative changes affecting the NFP reporting environment, including the introduction of the Incorporated Societies Act 2022, which expanded the population of incorporated societies required to prepare GAAP-compliant financial statements;
- New and amended IPSAS Accounting Standards, including significant changes and growing complexities in areas such as financial instruments, leases, revenue and transfer expenses, where those changes are developed primarily for public sector entities with public accountability and not NFP entities;
- New international proportionality mechanisms (including IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and revisions to IFRS for SMEs) which are reshaping thinking about proportionality mechanisms in reporting frameworks generally;
- Different jurisdictional approaches to NFP reporting providing additional perspectives on the effective design of NFP reporting frameworks;
- Publication of the International Non-Profit Accounting Standard (INPAS) in October 2025, based on IFRS for SMEs and designed specifically for the NFP sector; and
- Technological developments, including advances in artificial intelligence (AI) and automation, which are reshaping financial reporting processes, information accessibility and stakeholder expectations.

27. For Tier 1 and Tier 2 NFP entities, the relevant matters considered in this paper include the diversity of the reporting population (with a large range of service delivery operations and objectives), the characteristics and information needs of users, the cost, complexity and operability of applying the current framework, the extent to which the reporting requirements remain proportionate to the size and capability of different NFPs, group reporting and interoperability considerations, and the framework's ability to operate effectively within New Zealand's reporting ecosystem.

28. It also considers the relevance of international comparability and trans-Tasman alignment for NFP entities. We recognise that these considerations are not significant for the majority of NFP entities that are funded in New Zealand and focused solely on service delivery objectives which benefit New Zealanders. However, we note that for a subset of Tier 1 and Tier 2 NFP entities with cross-border operations, funding sources, group structures or stakeholders, this may be an important consideration.

Matters identified through previous review work and stakeholder engagement

29. Previous review work, including the 2019 targeted review of the ASF, provides relevant context for considering the Tier 1 and Tier 2 NFP framework.

30. That work indicated that the ASF, including the Tier 1 and Tier 2 NFP reporting framework, was generally operating as intended and had not given rise to significant unintended consequences. While respondents generally supported continued alignment with IPSAS, many considered that local considerations should take precedence where necessary and supported a more flexible approach to the development of PBE Standards.

31. Feedback from the charities sector noted concerns that some aspects of PBE IPSAS may not be sufficiently tailored to the circumstances and reporting needs of New Zealand charities, although no specific examples were provided. Other feedback highlighted that differences in the timing of IPSAS and IFRS developments can create additional reporting effort for mixed groups that prepare both PBE and for-profit financial statements.

32. These matters do not, of themselves, indicate that changes to the Tier 1 and Tier 2 NFP framework are required. Rather, they identify challenges to be explored through the reporting framework assessment.

Legislative and regulatory environment

Legislative framework requiring GAAP-compliant financial reporting

33. As noted above, legislation determines which entities must prepare GAAP-compliant financial statements. Once that reporting obligation exists, the ASF determines the applicable sector, tier and reporting requirements.

34. The NFP sector operates within a broader legislative framework that reflects the diversity of legal structures used by NFP entities, including charities, incorporated societies, charitable trust boards, Post-Settlement Governance Entities (PSGEs), Post Treaty Settlement Entities (PTSEs) and charitable companies. Key legislation influences not only whether entities are required to prepare financial statements, but also governance arrangements, filing obligations, audit and review requirements, registration requirements and access to charitable tax concessions.

35. The table below summarises the principal legislation relevant to the NFP sector. It is **not intended to be an exhaustive list**, as other legislation may be relevant to particular types of entities or circumstances. For example, the Māori Community Development Act 1962, establishes Māori Associations (including Māori Committees, Māori Executive Committees, District Māori Councils and the New Zealand Māori Council), defines their powers and impose reporting obligations on those entities.

Key legislative instruments

Primary legislation	Legislative requirement	Relevant thresholds & definitions
Financial Reporting Act 2013 (FRA 2013)	• Establishes the core concepts that underpin New Zealand's financial reporting framework and empowers the XRB to issue accounting standards • FRA 2013 does not generally impose reporting obligations on NFP entities. Instead, it provides the statutory reporting frameworks used by other legislation.	• 'large' = assets over $66m or revenue over $33m (in preceding two accounting periods) (section 45); • 'large overseas company' = assets over $22m or revenue over $11m (section 45); • 'specified not-for-profit entity' = operating payments over $140,000 (in preceding two accounting periods) (section 46)
Charities Act 2005	• Establishes the framework for the registration, regulation and monitoring of charities in New Zealand. It establishes the Charities Register, Charities Services and the Charities Registration Board. • Registered charities must file an annual return with Charities Services (sections 41 and 42A) unless exempt under section 42AC. • Financial statements of a *specified not-for-profit entity* (as defined by FRA 2013 above) must comply with GAAP. • A large registered charity must have its financial statements audited and medium-sized registered charity must have its financial statements either audited or reviewed (section 42C)	For the purpose of audit or review of registered charities (section 42D): • 'large' = operating expenditure over $1.1m (in preceding two accounting periods); • 'medium-sized' = not large (as per above) and operating expenditure over $550k (in preceding two accounting periods);

Incorporated Societies Act 2022	• Governs the incorporation, governance and administration of incorporated societies • An incorporated society must file an annual return with Company Register (sections 102) • Financial statements of a *specified not-for-profit entity* (as defined by FRA 2013 above) must comply with GAAP (sections 102). • Sets minimum requirements for financial statements of *small societies* (section 104)	• 'small society= operating payments below $50k (in preceding two accounting periods) and total current assets below $50k (at preceding two balance dates) and not donee organisation under Tax Act 2007
Charitable Trusts Act 1957	• Provides for the incorporation and administration of charitable trust boards.	
Companies Act 1993	• Governs incorporation, legal personality, governance arrangements, directors' duties, amalgamations and liquidation of companies (relevant to NFPs that operates as charitable companies). • Specified company types must comply with GAAP: large companies (as defined in FRA 2013), public entities, large overseas companies (as defined in FRA 2013), and companies with 10 or more shareholders (unless opted out) or fewer than 10 (if opted in) (section 200-202)	
Māori Trust Boards Act 1955	• Establishes and governs specified Māori Trust Boards that administer assets and resources on behalf of iwi beneficiaries • Financial statements of a Māori Trust Board must comply with GAAP and must be audited (section 31)	
Tax Act 2007	• Establishes New Zealand's income tax framework, including tax exemptions for charities and other NFP organisations • Lists certain donee organisations (schedule 32)	

Regulatory and oversight environment

36. The NFP sector is supported by a regulatory and oversight framework. Key regulatory and oversight bodies include:

    - **Charities Services (Department of Internal Affairs**) – administers the charities registration system, monitors compliance with the Charities Act 2005 and receives annual returns and financial statements from registered charities;
    - **Charities Registration Board (Te Rātā Atawhai)** – makes independent decisions on the registration and deregistration of charities;
    - **Companies Office (MBIE)** – maintains the registers for incorporated societies, charitable trust boards and companies and administers related filing requirements;
    - **Inland Revenue (IRD**) – administers charitable tax exemptions and the donee organisation regime, including determining eligibility for charitable tax concessions and donee status.

Tier 1 and Tier 2 NFP position in ASF

37. Under the current ASF, the Tier 1 and Tier 2 NFP reporting frameworks apply to entities that:
    - are required to prepare GAAP-compliant financial statements;
    - are public benefit entities (PBEs), being entities whose primary objective is to provide goods or services for community or social benefit, and where any equity has been provided to support that objective rather than to provide a financial return to equity holders; and
    - are not public sector PBEs - i.e. PBEs that are not 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.

38. Tier 1 NFP entities comprise PBEs that have public accountability or are large PBEs (expenses greater than $33 million). Tier 2 NFP entities comprise PBEs that do not have public accountability and are 'medium-sized' (expenses between $5 million and $33 million). The Definition of public accountability paper explains the public accountability concept in more detail. As contextual background, we note that the vast majority of NFP entities in the current Tier 1 and Tier 2 are meeting the size thresholds, rather than meeting the public accountability definition and the reporting frameworks for Tier 1 and Tier 2 reflect reporting requirements for NFP entities who have larger scale operations (with larger expense outflows).

39. This paper does not assess the current sector classification, public accountability criteria or tier allocation thresholds within the ASF, these elements are considered separately as part of this ASF review. Rather, this paper considers how alternative reporting framework options would operate for entities that are currently within the Tier 1 and Tier 2 NFP reporting population.

Implications for Tier 1 and Tier 2 NFP framework assessment

40. The framework assessment considers how alternative reporting framework options would operate for NFP entities that are already required to prepare GAAP-compliant financial statements. It does not consider which entities should be required by legislation to prepare financial statements or legislative reporting thresholds.

41. These legislative and regulatory settings provide important context for the framework assessment because Tier 1 and Tier 2 NFP entities operate in a diverse environment as described in the section below. Many entities are also subject to additional accountability requirements arising from charity registration, funding agreements, tax concessions, audit and review requirements, or sector-specific regulation. These requirements are outside the XRB's mandate to change but remain relevant context for the framework assessment. Mandatory financial reporting forms part of a broader legislatively required accountability framework[7] through which NFP entities demonstrate stewardship of donated, granted and other resources entrusted to them for public benefit purposes to a broad set of users and is not part of the ASF review.

42. The implications for users, preparers and the wider reporting ecosystem are considered in later sections.

Characteristics of Tier 1 and Tier 2 NFP entities

Common characteristics of Tier 1 and Tier 2 NFP entities

43. As explained in the section Tier 1 and Tier 2 NFP position in ASF, Tier 1 and Tier 2 NFP entities are PBEs that are not public sector PBEs and are required to prepare GAAP-compliant financial statements under legislation. The population includes a wide range of entities with different legal forms, purposes,

[7] The 2011 Review of the Financial Reporting Framework notes that Parliament determines which entities must prepare financial statements, while the XRB sets the standards for those entities.

operating models, sources of funding, activities, internal reporting capabilities and levels of reliance on volunteers. It includes large registered charities, incorporated societies, charitable trust boards, Post-Settlement Governance Entities (PSGEs), Post Treaty Settlement Entities (PTSEs), charitable companies, religious trusts, Māori NFP entities, education, health and social service providers, sporting and recreation organisations, professional and industry associations, and other entities established to deliver public benefit objectives.

44. We acknowledge there is no centralised register containing information on the population size, composition, and activities for all types of NFP entities, and there is a fundamental limitation that complete data on all Tier 1 and Tier 2 NFP entities is not available. Given the wide range of legal forms that NFP entities can take and the diverse nature of their service delivery activities, combined with differing assurance requirements based on the legal form of the entity, there is no reliable, consolidated view of the NFP sector in New Zealand (like there is with the Public Sector). We have looked for external evidence and research on the characteristics of subsets of Tier 1 and Tier 2 NFP entities (like Charities Services register for Charities and MBIE's register for incorporated societies) where available but acknowledge that the considerations made may not work for all Tier 1 and Tier 2 NFP entities.

45. Tier 1 and Tier 2 NFP entities are economically significant organisations that control substantial resources and play an important role in delivering social, cultural, health, education and community services across New Zealand.[8] Although they represent only a small proportion of the overall NFP population by number, they are often significant organisations within their communities or sectors and are accountable for the stewardship of substantial donated, granted and other resources entrusted to them.

46. The charities sector itself employs over 105,000 full-time staff, representing around 4% of the national workforce with 170,000 charities volunteers contributing approximately 1.4 million hours of their time each week.[9] While these figures include charities across all reporting tiers, it is reasonable to assume that a significant proportion of these employees and volunteers are associated with Tier 1 and Tier 2 entities, given the scale of their operations.

47. The population is diverse in scale and organisational complexity. It includes entities delivering services within a particular community as well as large organisations operating across multiple locations, activities or group structures. Entities may be funded through different combinations of donations, grants, government contracts, membership fees, trading activities, borrowing and other arrangements. Their transactions, governance structures, financial resources and reporting capability may therefore vary considerably. The different sources of funding may also result in different levels of accountability and user needs.

48. Some Tier 1 and Tier 2 NFP may also operate branches, subsidiaries or controlled entities that undertake activities like those of for-profit organisations, such as retail operations, property management, commercial services or investment activities. Although these activities may be done to generate profits, they are generally undertaken to support the entity's public benefit objectives rather than to provide a financial return to equity holders.

49. As a result, the existence of commercial activities does not necessarily mean that an entity ceases to be an NFP. Instead, classification depends on the entity's primary objective and whether any equity has

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[8] The JBWere and University of Waikato 2026 report *Economic Value of the For-Purpose Sector in Aotearoa New Zealand* estimates that the broader for-purpose sector directly contributes $19.1 billion to New Zealand's GDP and employs approximately 231,000 paid workers, representing about 8% of New Zealand's employed workforce. Including the estimated value of volunteer labour, the sector's contribution increases to $25.8 billion, equivalent to 5.7% of GDP. However, the report covers approximately 119,449 for-purpose organisations, including NFP entities, public sector PBEs and for-purpose for-profit entities (e.g. B-companies). Accordingly, these estimates provide broader "for-purpose" sector context and should not be interpreted as measures specific to Tier 1 and Tier 2 NFP entities.

[9] Charities-Sector-Snapshot-2024_2025 provides a high-level overview of New Zealand's charitable sector for the 2024/2025 period.

been provided to support public benefit objectives rather than to generate returns for investors. We note this distinction may be difficult for certain entities to evaluate when the equity provided is for multiple purposes and public benefit objectives and financial objectives cannot be distinguished or clearly determined.

50. The implications of this diversity for stakeholder information needs and entities' financial reporting capability are discussed in the section Information needs of users and preparers below, while the effects of complexity, workforce capability and implementation effort are discussed in section Practical challenges with the current Tier 1 and Tier 2 NFP framework.

51. Although Tier 1 and Tier 2 NFP entities share these broad characteristics, they differ significantly in scale, economic significance, organisational complexity, reporting capability and the relative importance of different user needs. These differences are relevant when assessing the suitability of alternative reporting framework options.

NFP Tier	ASF thresholds	Standards	Population
Tier 1	• Has public accountability as defined in XRB A1; or • Is large NFP with total expenses > $33 million (as defined in XRB A1); or • Is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.	PBE Standards	• ~112 organisations and ~40 groups registered as charities[10] • ~18 incorporated societies[11]
Tier 2	• Has no public accountability; and • Has total expenses ≤ $33 million but > $5 million (not 'large' as per XRB A1)	PBE Standards RDR	• ~633 organisations and ~97 groups registered as charities[2] • ~263 incorporated societies[3]

52. This paper focuses on mandated Tier 1 and Tier 2 NFP entities and does not consider entities that voluntarily opt to apply Tier 1 or Tier 2 reporting requirements. All entities within the NFP sector can choose to report in a higher reporting Tier if they consider it appropriate for their users, even where the framework is not specifically designed for their current size and operations.

Characteristics of Tier 1 NFP entities

53. Tier 1 NFP entities are PBEs with public accountability or entities that are considered large under the ASF because they have annual expenses greater than $33 million. The Definition of public accountability paper explains the public accountability concept in more detail[12]. Although Tier 1 includes entities with public accountability, we note that public accountability is a less prominent characteristic of Tier 1 NFP

[10] The 'NFPs – registered charities' information was obtained from Charities.govt.nz in August 2026. The data includes controlled charities, meaning some organisations may be counted twice: once as an individual charity and again as part of a group.

[11] The incorporated society information was obtained from MBIE in June 2023. We assume that all of Tier 1 and Tier 2 incorporate societies re-registered and continue to exist.

[12] The term "public accountability" is used differently from the way normally used in the public sector and not-for-profit sector. While entities in the public sector and not-for-profit sector are generally considered to be publicly accountable, it does not mean that all entities in those sectors have public accountability. The definition of public accountability has a particular technical meaning and is narrower than the generic term publicly accountable as it is commonly used.

entities than it is in the for-profit sector. Most Tier 1 NFP entities are included in Tier 1 because of their size rather than because they meet the XRB A1 definition of public accountability.

54. Based on information from the Charities Register, approximately 112 registered organisations fall within Tier 1, representing only around 0.4% of registered charities. However, these entities account for approximately 57.7% of total expenditure and 43.2% of total assets held across the registered charity sector[13]. For illustration, the Tier 1 registered charity with the largest asset base reported total assets of $5.4 billion, while the median Tier 1 registered charity reported total assets of $90.8 million. Similarly, the Tier 1 registered charity with the highest reported income recorded total income of $2.2 billion, while the median Tier 1 registered charity reported total income of $68.1 million. These figures illustrate that Tier 1 entities generally control significant resources and undertake substantial levels of activity.[14]

55. Tier 1 NFP entities are typically economically significant organisations that control substantial resources and often operate across multiple locations, programmes or service streams. They frequently receive significant governmental funding, philanthropic funding or donations and may manage large pools of assets held for public benefit purposes. Their activities often attract heightened public scrutiny and accountability expectations because of their size, visibility and reliance on resources provided by others.

56. Tier 1 entities also typically have greater access to internal finance expertise, governance resources and external professional support. While implementation of accounting requirements may still be complex and resource-intensive, these entities are generally better positioned to maintain systems, controls and specialist capability needed to apply comprehensive reporting requirements and have the resources available to dedicate to their accountability and financial reporting function. This does not mean all Tier 1 entities are alike; some organisations may have complex transactions, significant investment portfolios or international operations, while others may have less complex activities despite their size.

Characteristics of Tier 2 NFP entities

57. Tier 2 NFP entities are PBEs without public accountability that have annual expenses between $5 million and $33 million. Based on information from the Charities Register, approximately 633 registered organisations fall within Tier 2, representing only around 2.3% of registered charities. However, these entities account for approximately 22.7% of total expenditure and 25.0% of total assets held across the registered charity sector[15]. For illustration, the Tier 2 registered charity with the largest asset base reported total assets of $1.1 billion, while the median Tier 2 registered charity reported total assets of $15.5 million. Similarly, the Tier 2 registered charity with the highest reported income recorded total income of $158.1 million (with $15 million total expenses), while the median Tier 2 registered charity reported total income of $10.6 million. These figures again illustrate that Tier 2 entities generally control significant resources and undertake substantial levels of activity.[16]

58. Tier 2 entities play an important role in delivering public benefit services and are often significant organisations within their communities or sectors. However, they generally operate on a smaller scale than Tier 1 entities and may have less complex organisational structures, fewer specialised functions and more limited financial and operational resources. Some Tier 2 entities may transition into Tier 1 entities as they continue to increase their service delivery over time.

[13] The percentages were calculated based on data excluding controlled charities as obtained from Charities.govt.nz in August 2026.

[14] Based on data excluding controlled charities as obtained from Charities.govt.nz in August 2026 as such reflect registered charities' 2025 financial data.

[15] The percentages were calculated based on data excluding controlled charities as obtained from Charities.govt.nz in August 2026.

[16] Based on data excluding controlled charities as obtained from Charities.govt.nz in August 2026 as such reflect registered charities' 2025 financial data. Has been cross-checked against the annual reports of the relevant entities.

59. Compared with Tier 1 entities, many Tier 2 entities are more likely to rely on small finance teams, part-time accounting staff, volunteers or external advisers, due to the lower available resources.[17] Consequently, preparer capability and reporting infrastructure can vary significantly across the Tier 2 population. Some Tier 2 entities may have sophisticated governance arrangements and dedicated finance functions, while others may face greater challenges implementing and maintaining complex accounting requirements.

60. We note that for some NFPs, the level of expenses and assets may not correlate with each other, and some NFPs may have very low expenses while simultaneously controlling a large value of assets (or vice versa). As such, the characteristics of some NFPs' assets may differ significantly, even if the characteristics of their expenses are similar. Under the current ASF, only the level of expenses determines the reporting tier of an NFP. Considerations around the tiers and thresholds within the NFP sector will be considered in a future paper.

Information needs of users and preparers

Users of Tier 1 and Tier 2 NFP financial statements

61. The PBE Conceptual Framework identifies service recipients and resource providers, and their representatives, as the primary users of public benefit entity general purpose financial reports. For Tier 1 and Tier 2 NFP entities, this includes government funders, donors, grant providers, lenders, members, beneficiaries and communities served by the entity. These users rely on financial and service performance information to assess accountability and support resource allocation decisions.

62. Tier 1 and Tier 2 NFP entities play an important role in delivering social, cultural, health, education and community services across New Zealand. Although they represent only a small proportion of the overall not-for-profit population (by quantity), they control significant resources and are often responsible for delivering services that are important to communities, government objectives and public well-being. Their financial statements therefore support accountability for the stewardship of substantial donated, granted and entrusted resources.

63. Tier 1 and Tier 2 NFP entities generally have a broader and more diverse user base than many for-profit entities. Users may include government agencies, philanthropic trusts and foundations, donors, members, lenders, beneficiaries, governing bodies, regulators, researchers, media[18] and public-interest groups. These users may have different objectives, levels of financial literacy and access to alternative sources of information, but may all be interested in financial statement information to understand how the NFP entity is using its publicly provided resources.

64. Tier 1 and Tier 2 NFP entities may have different users or mix of users, but their information needs are unlikely to differ substantially. Both Tier 1 and Tier 2 entities are accountable to a broad range of stakeholders, including government agencies, funders, donors, members, lenders, beneficiaries and regulators and are likely to need similar information to help with their decision-making and holding Tier 1 and Tier 2 NFP entities to account.

65. Tier 1 NFP entities are often organisations with a large scale of service delivery activities, significant government funding, borrowing arrangements, group structures or public visibility. Their users may include sophisticated stakeholders such as government agencies, large institutional funders, regulators and lenders who can analyse complex financial information. Tier 2 entities also receive government funding and service delivery grants; however, their service delivery activities are at a smaller scale, and

[17] Based on information from the Charities Register, Tier 2 registered charities have, on average, around one-tenth of the number of employees of Tier 1 registered charities. Has been cross-checked against the annual reports of the relevant entities.

[18] For example, the NZ Herald article "New Zealand's highest paid charity bosses gain pay rises" reviewed remuneration disclosures from a number of large charities to compare executive remuneration across the sector.

donations generally represent a larger proportion of their income than they do for Tier 1 entities. Tier 2 users may more commonly include local funders, donors, members, volunteers and community stakeholders who may place greater emphasis on understandable reporting, stewardship of resources and service delivery outcomes.

66. Different users may focus on different aspects of reported information depending on their relationship with the entity and the decisions they are making:

    - Government agencies, major funders and regulators may focus on financial resilience, stewardship of funding, compliance with funding conditions and the entity's ability to continue delivering services.
    - Donors, members and supporters may focus on how resources have been used to achieve the entity's mission and deliver public benefit.
    - Beneficiaries and communities may be interested in the continuity and effectiveness of service delivery.
    - Lenders and other creditors may focus on financial position, liquidity, cash flows and the capacity of the entity to meet its obligations.

67. Unlike for-profit entities, many NFP entities do not have shareholders or equivalent owners who can demand information. We note that Tier 1 and Tier 2 NFP entities are typically governed by boards that provide oversight of management and are an important mechanism for accountability. However, governance arrangements for NFP entities also vary significantly with many NFP entities balancing limited budgets with frontline delivery and generally have boards with 6 to 10 members, and typically fewer independent or paid board members.[19]

68. Legislative reporting requirements and publicly available financial statements therefore provide an important mechanism for transparency, accountability and public confidence for these entities users on their operations during the year. This may be particularly relevant for larger Tier 1 and Tier 2 NFP entities that receive significant donations, government funding or tax concessions, and where stakeholders rely on publicly available information to assess how resources have been used.

69. Stakeholder feedback through the discussion paper and targeted outreach will be important in testing whether these identified user needs remain consistent with current practice. Feedback from funders, donors, lenders, beneficiaries, regulators and other users will help identify which information is most useful for assessing accountability, stewardship, financial sustainability and service delivery performance.

Preparers and operational considerations

70. Tier 1 and Tier 2 NFP entities are not a homogeneous population, even where the users of Tier 1 and Tier 2 financial statements are not substantially different. Tier 1 entities are generally larger organisations that manage substantial resources and operate with more developed finance functions, governance structures and reporting capabilities. Many Tier 2 NFPs are smaller organisations that nevertheless play an important role in delivering social, cultural, health, education and community services. While they may still be economically significant and accountable for substantial donor, grant or public funding, they often operate with fewer financial resources, leaner finance teams and more limited access to specialised accounting expertise.

[19] The Grant Thornton Not-for-Profit Sector Report 2026 notes that the proportion of boards with independent members has declined since 2022, paid board members are the exception rather than the rule and identifies a limited pool of capable board members, many of whom are already serving on multiple boards.

71. Most Tier 1 and Tier 2 NFPs focus on service or programmes delivery. Examples of such service delivery costs include costs of hosting events, providing community or member services, providing training, consumables (e.g. medical supplies or sport equipment) and other programme-related activities. Staff costs are also dominant expense. Other common expenses include administration and overhead costs, depreciation, rent and building costs (including leases), assurance costs and interest or bank fees.[20] While some very large Tier 1 NFPs may have complex arrangements (like financial hedges or complex financial instruments), most Tier 1 and Tier 2 NFPs are not entering into complex transactions. Appendix 8 provides further insight into revenues and expenses of registered charities.

72. The balance sheets of Tier 1 and Tier 2 NFPs typically include cash and cash equivalents, property, plant and equipment, trade debtors, inventories, term deposits, investments and intangible assets (mainly software). Common liabilities include employee-related liabilities, trade creditors, borrowings and GST payable. More complex Tier 1 and Tier 2 NFPs may have several funds within their equity, such as funds with restrictions imposed by donors, funds designated to specific purposes, capital funds for construction and acquisition of property, plant and equipment, and general unrestricted funds.

73. Our review of the 15 Tier 1 and 15 Tier 2 registered charities with the highest reported expenses identified a clear difference in the use of derivatives. 10 of the 15 Tier 1 charities reviewed used instruments such as interest rate swaps, foreign exchange forward contracts and related cash flow hedges to manage interest rate and foreign exchange risks. In comparison, only one of the 15 Tier 2 charities reported using an interest rate swap, suggesting that these financial transactions are significantly less common among Tier 2 charities. We note overall that complex financial instruments (including hedge accounting) are likely to be relevant to a small subset of NFPs (and BDO's Tier 1 NFP model financial statements specifically exclude complex financial instruments and hedge accounting from their illustrative NFP example because it is not commonly encountered in a typical NFP reporting environment).

74. Investments were reported by 64.3% of Tier 1 and 47.1% of Tier 2 registered charities.[21] Our review of individual financial statements shows that almost half of Tier 1 investments comprised investments in controlled entities and equity-accounted investments. Tier 2 investments included managed funds and investments in joint ventures and associates. Further information is provided in Appendix 8.

75. Applying Tier 1 and Tier 2 reporting requirements may involve significant judgement, documentation, system capability, audit support and ongoing implementation effort. These challenges may be more pronounced for Tier 2 entities because they may have fewer internal resources available to dedicate to financial reporting activities. Although Tier 2 entities receive reduced disclosure requirements, they continue to apply the same recognition, measurement and presentation requirements as Tier 1 entities. As a result, many of the complexities associated with applying PBE Standards remain, even where fewer disclosures are required.

76. Preparers must balance the need for high-quality, transparent and credible reporting against the costs and practical challenges of preparing financial statements. Relevant considerations include accounting capability, auditability, governance expectations, system capability, interactions with funding and regulatory reporting obligations, group reporting interactions, and the resources required to implement and maintain reporting requirements over time.

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[20] The paper Typical Transactions in Incorporated Societies that are not Registered Charities, Scott Riordan, Carolyn Cordery (2016) provides insight onto typical transactions of NFPs. The study concluded that incorporated societies and registered charities undertake broadly similar types of transactions, However, the study's charity comparison focused primarily on Tier 3 and Tier 4 entities and did not specifically examine whether the transaction profile of Tier 1 and Tier 2 incorporated societies is equivalent to that of Tier 1 and Tier 2 charities. Also, conclusions for Tier 1 and Tier 2 entities should be treated cautiously because the sample contained only 16 entities and therefore individual organisations could materially influence the aggregate results.

[21] Percentages calculated based on data excluding controlled charities as obtained from Charities.govt.nz in August 2026 as such reflect registered charities' 2025 financial data.

77. Reporting requirements that are not fit-for-purpose, difficult to understand, apply or audit may increase compliance costs, particularly for NFP entities with limited internal accounting capability, that rely upon volunteers, or have less or infrequent complex transactions. These factors may be more relevant for Tier 2 NFP entities, where reporting resources can be more constrained than in Tier 1 entities (as noted above in Common characteristics of Tier 1 and Tier 2 NFP entities).

Implications for Tier 1 and Tier 2 NFP framework assessment

78. These user and preparer considerations are relevant to the reporting framework assessment because they indicate the type of information that Tier 1 and Tier 2 NFP users require and the practical conditions under which that information is prepared. They indicate that reporting needs extend beyond financial returns and include stewardship of resources, delivery of organisational objectives to support social and community outcomes, transparency, public trust and long-term service continuity.

79. They also help assess whether reporting framework options support transparent, credible and decision-useful reporting, while appropriately reflecting accountability for donated, granted and entrusted resources, service delivery objectives, long-term sustainability and stewardship responsibilities. They also assist in assessing whether reporting requirements remain proportionate, understandable, operable and coherent across the Tier 1 and Tier 2 NFP reporting framework.

International practice, alignment and comparability considerations

Reporting approaches used in other jurisdictions for NFP entities (refer to Appendix 9)

80. Many jurisdictions have concluded that the reporting needs of NFP entities are not fully addressed by accounting frameworks developed primarily for for-profit entities. As a result, they have introduced dedicated NFP standards or modified existing frameworks to better reflect the NFP's circumstances. Many jurisdictions' NFP reporting frameworks are specifically tailored for their own jurisdictional circumstances and reflect the nature of service delivery which occurs in their jurisdiction.

81. At present, the International Non-Profit Accounting Standard (**INPAS**) initiative represents the only emerging international framework being developed specifically for NFP entities. However, INPAS was published only in October 2025. We note that one jurisdiction has announced adoption from 1 January 2028 and some other jurisdictions are currently considering the framework. This means INPAS has not yet been widely adopted and has not been tested through practical implementation across jurisdictions (and we have yet to see any NFP entity report financial statements under the framework).

82. Consequently, there is currently no established internationally accepted NFP reporting framework that provides the same level of maturity, implementation experience or global recognition as IFRS within the for-profit sector or IPSAS within the public sector.

International comparability considerations and Trans-Tasman alignment

83. International comparability may be relevant for some NFP entities, but it is generally less important than it is for for-profit entities. However, based on the nature of many NFP funding and accountability relationships, it may be less significant than for for-profit entities that participate in international capital markets. Unlike for-profit entities, NFP entities do not typically participate in international capital markets, raise equity from investors, or compete for capital based primarily on financial performance measures.[22] Instead, they are generally focused on delivering public benefit outcomes, stewardship of resources, service delivery and accountability to donors, funders, members, regulators, beneficiaries and the wider public.

[22] The Charities Register indicates that both Tier 1 and Tier 2 registered charities spent only a small proportion of their expenditure overseas, at approximately 1% and 2% respectively.

84. For many NFP entities, funders and users of financial statements are primarily domestic and interested in how domestic resources have been obtained, managed and used to achieve the entity's objectives. This consideration may be particularly relevant for Tier 2 NFP entities, whose users are often local funders, grant providers, donors, members and regulators.

85. Nevertheless, for some NFPs with international operations and funding sources, international comparability may still be relevant. Certain large charitable organisations, international aid organisations, educational institutions and other NFP groups operate across multiple jurisdictions or receive funding from overseas donors, governments or philanthropic organisations. For these entities, comparability with international counterparts may assist external users in understanding financial performance, stewardship and resource allocation decisions.

86. Internationally aligned frameworks may also provide access to a larger body of international literature, implementation guidance and illustrative examples of reporting practices. In addition, alignment with internationally recognised frameworks can support the use of software systems and reporting processes that are designed around international best practice. This consideration is generally more likely to be relevant for certain Tier 1 NFP entities which are typically larger and more complex and operate internationally or have a broader range of global stakeholders.

87. Comparability with Australia may be relevant for some NFPs, users and stakeholders given elements of the trans-Tasman operating environment. This may be particularly the case where NFPs operate across both jurisdictions or form part of wider Australasian groups, receive funding from trans-Tasman donors and funders or participate in shared initiatives across both countries with other similar NFPs. Alignment with Australian reporting requirements may therefore support comparability, group reporting, workforce mobility and the use of common systems, guidance and professional expertise for these entities.

Implications for Tier 1 and Tier 2 NFP framework assessment

88. International practice provides useful context on how other jurisdictions meet the reporting needs of NFP entities and the frameworks they apply, however international comparability of reporting requirements may not be overly valuable in the NFP sector. In the absence of a mature and widely adopted international NFP reporting framework, it is only a reference point for New Zealand, as each jurisdiction operates within its own legislative, regulatory, funding, and reporting environment. Differences in factors such as legal form, charitable status, public funding arrangements, size thresholds, and sector-specific regulation mean that overseas NFP populations and reporting approaches are not always directly comparable to New Zealand's Tier 1 and Tier 2 NFP entities. Examples of approaches adopted in selected jurisdictions are included in Appendix 9.

Practical challenges with the current Tier 1 and Tier 2 NFP framework

89. The current NFP reporting framework is based on Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS), with Tier 2 entities receiving reduced disclosure requirements while applying the same recognition, measurement and presentation requirements as Tier 1 entities. This approach supports consistency across the NFP sector and facilitates movement between tiers. However, practical challenges can arise where requirements are complex, continue to evolve over time, or do not fully reflect the reporting environment, capability levels and information needs of New Zealand NFP entities.

Key challenges		
1. Complexity of requirements • Technically complex and resource-intensive to apply. • Transitioning from non-GAAP reporting to full PBE Standards recognition and measurement is challenging. • Certain requirements require significant judgement, specialist expertise, and supporting systems. • Complexity drive challenges in both application and understanding.	**2. Workforce capability** • Limited IPSAS and PBE Standards expertise within the wider NFP sector • Smaller NFP entities often rely on part-time finance staff, volunteers, or external advisers to meet reporting obligations.	**3. Limited NFP-specific coverage** • IPSAS do not always address NFP-specific transactions and circumstances • Additional guidance or disclosures are often needed to explain NFP-specific activities.
4. 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.	**5. Accountability and user needs** • Funders, donors, members, beneficiaries and regulators are often interested in service performance, outcomes achieved and stewardship of resources. • Financial reporting requirements may not always align with the information needs of key NFP stakeholders.	**6. Mixed group reporting** • NFP groups can comprise entities operating under different reporting frameworks • Applying consistent accounting policies and reporting practices across a diverse group structure can require significant resources, judgement and coordination across related entities.

90. The main practical challenges with the current framework are[23]:

- **Complexity of recognition and measurement requirements –** Both Tier 1 and Tier 2 entities apply the same recognition and measurement requirements. While this supports comparability and interoperability between tiers, some PBE Standards can be technically complex and resource-intensive to apply, as they were designed for large public sector entities, rather than NFP entities. Certain requirements also require substantial judgement, specialist expertise and supporting information. These challenges can be particularly significant for Tier 2 entities, which often have more limited internal accounting capability and fewer resources available to support implementation. Although Tier 2 entities receive disclosure relief, this may not be proportionate for some Tier 2 entities.
- **Workforce capability constraints –** Applying PBE Standards requires an understanding of IPSAS-based requirements and the New Zealand modifications incorporated within the PBE framework. Specialist PBE accounting expertise remains relatively limited across the NFP sector. While larger Tier 1 entities may have better access to dedicated finance teams and external advisers, many Tier 2 entities rely on small finance functions, part-time staff, volunteers or external accountants. As mission-oriented organisations, NFP entities often prioritise service delivery over administration costs, which may limit investment in staff training, professional development and specialist finance capability, and make it more difficult to attract and retain experienced finance professionals.
- **Limited NFP-specific coverage in the underlying standards** – Although PBE Standards contain New Zealand modifications and guidance, the underlying IPSAS framework was not developed for the NFP sector. As a result, some NFP-specific transactions, funding arrangements and operating circumstances may not be addressed directly within the PBE Standards. Preparers may therefore need to apply significant judgement or provide additional explanation to communicate the economic substance of NFP activities and outcomes – affecting both Tier 1 and Tier 2 entities.
- **Ongoing implementation and maintenance effort** – Tier 1 and Tier 2 NFP entities must monitor and implement new and amended PBE Standards, including related changes to accounting policies, systems, processes, controls, disclosures, audit evidence and staff training. Maintaining

[23] We note that the Grant Thornton Not-for-Profit Sector Report 2026 identifies several of the challenges discussed in this paper and highlights additional sector-wide issues that are not related to the ASF – for example cybersecurity,

technical capability and keeping reporting practices current requires ongoing investment across the wider reporting ecosystem. While this challenge affects entities across both tiers, it may be particularly difficult for Tier 2 entities, which often have more limited internal accounting resources.

- **Alignment with NFP user needs and accountability objectives** – Users of NFP financial statements range from sophisticated stakeholders, such as government agencies, banks, funders and lenders, to donors, members and the wider public. As a result, user information needs can vary significantly, with some focusing on financial performance and resilience, while others are more interested in accountability, stewardship of resources and outcomes achieved. The challenge is ensuring that reporting requirements provide information that is useful to this diverse user base without creating an unnecessary reporting burden and balance clear and effective reporting with all the information a broad range of users would need to make effective decisions.
- **Mixed group reporting and interoperability challenges** – Some NFP groups comprise entities applying different reporting tiers, reporting frameworks or sector-specific requirements. Applying consistent accounting policies and reporting practices across diverse group structures can require considerable judgement, coordination and resources. These challenges can arise for both Tier 1 and Tier 2 entities where group structures exist. However, these challenges may be more prevalent for some Tier 1 groups, as larger organisations are more likely to operate through multiple subsidiaries, controlled entities or related organisations and to have more complex group structures.

Implications for framework assessment

91. These challenges are relevant to the framework assessment because they help identify the practical pressures experienced by Tier 1 and Tier 2 NFP entities and provide context for assessing whether the existing framework remains fit-for-purpose for Tier 1 and Tier 2 NFP entities and for evaluating alternative reporting framework options.

92. Not all of these challenges can be addressed through changes to the ASF. Some arise from broader factors, including workforce capability, organisational complexity, funding arrangements, legislative settings and the wider reporting ecosystem. The purpose of the framework assessment is therefore not to eliminate all reporting challenges, but to consider whether alternative framework options could reduce unnecessary burden, improve proportionality and achieve an appropriate balance between accountability, user needs and reporting costs.

Reporting framework options considered

93. This paper considers selected reporting framework options that could apply to entities required to report under Tier 1 and Tier 2 NFP. The options have been selected to illustrate different framework-level approaches to Tier 1 and Tier 2 NFP reporting, including continuing with the current PBE Standards based on IPSAS/PBE Standards based on IPSAS with RDR framework, considering another comprehensive international framework, or considering a framework with greater New Zealand-specific modification.

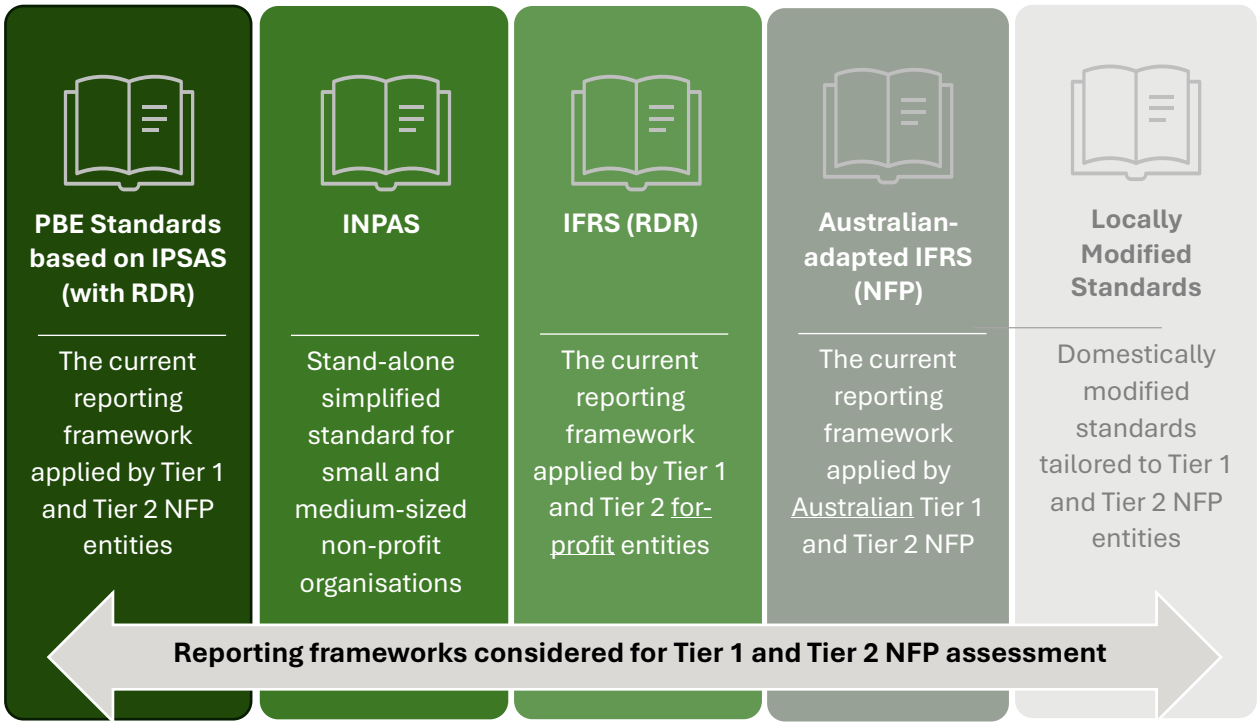
94. The selected options allow the assessment to consider different trade-offs, including international recognition, comparability, technical robustness, domestic flexibility, operability and implications for New Zealand's reporting ecosystem.

95. Several jurisdictions have developed national standards for NFP entities based on IPSAS, IFRS, or domestic reporting frameworks. Apart from Australia, these frameworks have not been assessed as standalone options because they are tailored to the specific legal, regulatory, and operating environments of their respective jurisdictions. However, elements of these frameworks (including

Australian NFP Standards) may provide useful insights when considering whether a locally modified New Zealand framework would be appropriate.

96. Special purpose financial reporting has not been assessed as a separate framework option due to our focus on entities required to prepare GAAP-compliant financial statements. Further consideration of special purpose financial reporting and its roles within the ASF review has been considered separately in the Special purpose financial reporting paper.

97. 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 PBE sector overview paper.



98. 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

99. Any change from the current Tier 1 and/or Tier 2 NFP reporting framework would have implications for how the ASF operates for entities required to apply Tier1 or Tier2 NFP reporting requirements including potential transition pathways. The feasibility, timing and implementation pathway for any option involving change would require further consideration before any proposal could be developed.

100. 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.

101. These implementation considerations have not been assessed in detail as part of the preliminary Tier 1 and Tier 2 NFP 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 1 and Tier 2 NFP

102. A further design question considered as part of the assessment is whether Tier 1 and Tier 2 NFP entities should be permitted to use, or have financial statements accepted under, more than one reporting framework. Regardless of their domestic reporting obligations, we note some Tier 1 and Tier 2 NFPs may prefer to report using NZ IFRS, or PBE Standards, if it facilitates a better conversation with their users and aids in international comparisons given their funding sources, and group consolidation processes. As such, optionality may help remove potential duplication of voluntary reporting practices for certain NFPs.

103. Optionality may provide flexibility for some Tier 1 and Tier 2 NFP entities and reduce costs where a simpler framework can be applied. It may also better accommodate the diverse nature of the Tier 1 and Tier 2 NFP population and, in some circumstances, simplify group reporting. However, allowing more than one framework within Tier may reduce comparability, affect global user understanding and increase audit, regulatory and capability requirements across the reporting ecosystem.

104. 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 1 or Tier 2 NFP in mind. Allowing multiple frameworks within Tier could reduce that clarity unless the circumstances in which each framework may be used are clearly defined.

105. 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 1 and/or Tier 2 NFP, including whether different framework options should be available only in clearly defined circumstances.

106. Staff propose that the public discussion paper include a question seeking stakeholder views on whether optionality within Tier 1 and Tier 2 NFP 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 1 and Tier 2 NFP reporting framework assessment

107. The analysis that follows applies the framework-level assessment criteria outlined in the PBE sector overview paper to the current PBE Standards based on the IPSAS framework and the alternative reporting framework options considered in this paper. The criteria are applied considering the Tier 1 and Tier 2 NFP context discussed above, including entity characteristics, legislative and regulatory settings, user and preparer needs, practical implementation considerations, and international alignment.

108. 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 NFP entities, while interoperability and international alignment may remain important for other NPF entities within groups or with cross-border funders. This section summarises the main observations from the assessment. Detailed criterion-by-criterion analyses for Tier 1 and Tier 2 NFP entities are set out in Appendix 6 and Appendix 7 respectively.

109. For the Tier 2 NFP assessment, interoperability with Tier 1 NFP is considered as part of the broader ASF review criteria. It refers to the extent to which a Tier 2 NFP framework remains compatible with the Tier 1 NFP framework, including consistency in recognition and measurement requirements, movement between tiers, group reporting and consolidation processes, and the use of a common reporting ecosystem.

110. For simplicity, when assessing the 'move between tiers' criteria for Tier 2 entities, this analysis evaluates the coherence and challenges associated with entities transitioning into PBE Standards based on IPSAS (the current requirements for Tier 1 NFPs). This assumption is used only for analytical purposes and should not be interpreted as an XRB recommendation or preferred future approach for Tier 1 NFP entities.

111. The interoperability with Tier 3 or Tier 4 NFP framework is not considered in this paper. For further detail on the PBE Tier 3 and Tier 4 frameworks considered, please refer to the Public Sector and Not-For-Profit Tier 3 and Tier 4 paper.

112. We have considered and assessed five possible frameworks for Tier 1 and Tier 2 NFP entities as set out in Appendix 6 and Appendix 7 respectively. Below is the summary assessment across the framework-level assessment criteria used across the broader ASF review.

Tier 1 NFP assessment summary

Tier 1 NFP Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. PBE Standards based on IPSAS	🟠	🟠	🟠	🟠	🟢	🟢	🟠
B. INPAS	🟠	🟢	🟠	🔴	🔴	🔴	🟠
C. IFRS	🔴	🔴	🟠	🔴	🟠	🔴	🟠
D. Australian-adapted IFRS framework (NFP)	🟠	🔴	🟠	🟠	🟠	🔴	🟠
E. Locally modified standards	🟠	🟢	🔴	🟢	🔴	🔴	🔴

Tier 2 NFP assessment summary

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

Legend:
- 🟢 Strong fit / low concern
- 🟠 Mixed fit / medium trade-off concerns
- 🔴 Significant trade-off concerns

A. PBE Standards based on IPSAS (with RDR for Tier 2 NFPs)

Reporting framework overview

113. PBE Standards are the current Tier 1 and Tier 2 NFP reporting framework. Under this framework, Tier 1 NFP entities apply full PBE Standards requirements, while Tier 2 NFP entities apply PBE Standards RDR, which retain the same recognition, measurement and presentation requirements but provide reduced disclosure requirements. PBE Standards are based on IPSAS and have been adapted where necessary by the XRB to reflect New Zealand circumstances. Further information about IPSAS, PBE Standards and PBE Standards with RDR is provided in the PBE Standards factsheet – see Appendix 1. Additionally, the papers on IPSAS adoption around the world and Alignment between IPSAS and IFRS may also provide further contextual background of PBE Standards based on IPSAS.

Implications for mandated Tier 1 and Tier 2 NFP entities

114. Retaining PBE Standards would support continuity because it is already embedded within New Zealand's not-for-profit reporting environment. Existing preparer, auditor, adviser, education, software and implementation capability has been developed around the current PBE Standards framework. Retaining the current framework would therefore avoid the transition disruption and implementation costs associated with moving to a different reporting framework.

115. PBE Standards are based on IPSAS, which are designed and written primarily for public sector entities. While this provides a comprehensive and internationally recognised starting point, ongoing effort is required to adapt and maintain the standards, so they remain relevant to New Zealand's NFP environment. The resulting framework better reflects common NFP activities, such as grants, donations, service delivery and other non-exchange transactions, than frameworks developed primarily for for-profit entities.

116. The framework also provides flexibility for the XRB to modify IPSAS-based requirements where necessary to reflect New Zealand circumstances and user needs. This may support future simplification initiatives where there is evidence that particular requirements are not proportionate for parts of the NFP sector. However, any modifications would need to be carefully balanced against maintaining a coherent, high-quality and credible reporting framework, as well as interoperability across the broader NFP reporting environment and public sector reporting environment (given the current PBE Standards apply to both the NFP and public sectors).

117. The main trade-off is that the framework may impose a level of complexity that is disproportionate for some NFPs, as these standards are based on providing reporting principles for large public sector entities (and are primarily based on IFRS Accounting Standards as a starting position). In addition, periodic updates to the standards suite require entities to monitor and implement new requirements, update systems and processes, and maintain appropriate accounting capability. For organisations with limited resources, the cumulative effect of these ongoing changes may increase implementation costs and contribute to change fatigue. Some complexity may also reflect the underlying transactions undertaken by larger NFP entities, including group structures, investment activities, borrowing arrangements and funding agreements.

Additional Tier 2 NFP considerations

118. PBE Standards with RDR provides disclosure relief for Tier 2 NFP entities while retaining the same recognition, measurement and presentation requirements as Tier 1 NFP entities. This approach supports interoperability with Tier 1 NFP reporting, including movement between tiers, group reporting and consolidation processes.

119. However, because simplification is achieved through reduced disclosures only, Tier 2 entities continue to apply the full recognition and measurement requirements of PBE Standards. This means that many of the complexities associated with accounting for transactions and events remain, even where the disclosure burden is reduced. Consequently, the reporting effort required may still be disproportionate for some less complex Tier 2 NFPs.

120. The extent of the benefit therefore depends on whether disclosure relief reduces the overall information-gathering, accounting and reporting effort, rather than simply reducing the number of disclosures presented in the financial statements. Preparers and auditors still need to identify and apply the relevant PBE Standards requirements and assess whether the resulting financial statements remain complete, useful and auditable.

Overall observations

121. Overall, retaining PBE Standards would maintain continuity with the current NFP reporting framework and preserve a comprehensive, internationally informed framework that reflects many of the unique characteristics of the Tier 1 and Tier 2 NFP sector. It would avoid significant transition costs and continue to leverage the existing reporting ecosystem that has developed around PBE Standards.

122. The principal trade-off is that framework may impose a level of complexity that some stakeholders consider disproportionate to the reporting needs of certain NFP entities, particularly as the underlying standards are developed primarily for public sector reporting rather than NFP reporting. While the XRB can modify requirements to reflect New Zealand circumstances, any further simplification would need to balance local relevance and proportionality with reporting quality, comparability and overall framework coherence. Some stakeholders may consider that certain requirements impose costs that exceed the corresponding benefits.

B. INPAS

Reporting framework overview

123. The International Non-Profit Accounting Standard (INPAS) is a stand-alone financial reporting framework developed specifically for the not-for-profit sector. It was issued by the International Non-Profit Reporting Foundation (INPRF) in October 2025. INPAS is founded on the IFRS for SMEs with modifications to address transactions and circumstances commonly encountered by NFP entities. INPAS is designed primarily for small and medium-sized NFP entities. Further information about the framework is provided in the INPAS factsheet – see Appendix 2

Implications for mandated Tier 1 and Tier 2 NFP entities

124. A key strength of INPAS is that it is the only internationally developed reporting framework designed specifically for the NFP sector. Whereas IPSAS was originally developed for public sector entities and subsequently adapted by the XRB for New Zealand NFPs (refer to the paper on Alignment between IPSAS and IFRS that explains this process), INPAS has been designed from inception around the transactions, accountability relationships and reporting issues commonly experienced by NFP entities. This makes the requirements more relevant and tailored to NFP entities and may result in clearer reporting for NFP users.

125. INPAS also incorporates a level of proportionality that may be attractive for some entities. Because it is based on IFRS for SMEs rather than full IPSAS, it generally contains simplified recognition, measurement and disclosure requirements. This simplification is reflected not only in the accounting requirements themselves but also in the structure of the framework. INPAS is contained within a single standard of approximately 300 pages, whereas New Zealand entities currently apply a suite of more than 40 PBE Standards. This may reduce reporting complexity, implementation effort and compliance costs compared with a full PBE Standards framework, although there is currently limited evidence from practical implementation to confirm whether these benefits will be realised in practice. The proportionality benefits may be particularly relevant for Tier 2 entities where some stakeholders have questioned whether disclosure relief alone provides a sufficient reduction in reporting burden, given the growing number of requirements in the Tier 1 framework.

126. However, Tier 1 NFP entities manage significant public, donor or community resources and may undertake complex transactions, financing arrangements or group structures. A framework originally designed for small and medium-sized entities may not provide a sufficient level of technical depth, comprehensiveness or reporting rigour currently provided through PBE Standards.

127. Another potential benefit of INPAS is that updates are expected to be less frequent than changes issued under IFRS or IPSAS. Similar to IFRS for SMEs, the framework is expected to be updated periodically rather than through a continuous cycle of amendments. This may provide greater stability for preparers, auditors and users, reduce ongoing implementation costs and lessen change fatigue across the sector. However, less frequent updating may also mean that the framework does not respond as quickly to emerging transactions, evolving reporting practices or changing user needs.

128. A significant consideration is that INPAS is a newly developed framework with limited evidence of practical implementation. Although international interest is growing, with Kenya announcing adoption[24], seven other jurisdictions planning to adopt INPAS and with reported interest from a number of other jurisdictions, the extent and timing of any future adoption remains uncertain. It is also notable that all but one of the eight jurisdictions planning adoption have extensive experience applying IFRS for SMEs, which may influence the ease of their transition.

129. Adopting INPAS would also represent a significant change for New Zealand's financial reporting environment. Tier 1 and Tier 2 NFP preparers, auditors, advisers, software providers, educators and regulators have developed considerable expertise in PBE Standards over the past decade. Introducing an additional reporting framework would require substantial investment in training, guidance, implementation support and capability building, which could potentially outweigh benefits of the simpler reporting requirements attached to the INPAS framework compared to PBE Standards. We note this is expected to be a short-term transition cost, rather than an ongoing cost over the medium to long term.

Additional Tier 2 NFP considerations

130. For Tier 2 entities, INPAS may provide a more proportionate reporting framework than the current PBE Standards with RDR model because simplification extends beyond disclosures and includes recognition and measurement requirements. This may reduce accounting complexity and ongoing compliance costs for some entities, particularly those with less complex transactions or limited internal reporting capability.

131. However, INPAS departs from PBE Standards recognition and measurement requirements. As a result, adopting INPAS for Tier 2 would reduce interoperability with Tier 1 NFP reporting if Tier 1 entities continued to apply PBE Standards. This could affect comparability between Tier 1 and Tier 2 entities, movement between tiers, group reporting and consolidation processes, and the operation of a common reporting ecosystem. Entities moving from Tier 2 to Tier 1, or reporting into groups that apply PBE Standards, may need accounting adjustments because INPAS can produce different accounting outcomes from IPSAS-based standards, which will add time, cost and effort for those entities and groups. The significance of these interoperability challenges would depend on the future design of the NFP reporting framework.

Overall observations

132. Overall, INPAS represents an internationally developed reporting framework specifically designed for the not-for-profit sector and therefore offers a level of sector relevance not found in IFRS-based or IPSAS-based alternatives. Its simplified approach may provide a more proportionate reporting framework for some NFP entities, particularly in Tier 2, and its less frequent update cycle may reduce ongoing implementation and maintenance costs.

133. However, INPAS is a newly developed framework with limited implementation experience and limited evidence regarding its practical application. Adoption would require significant ecosystem investment in capability, training, systems and implementation support. The framework's IFRS for SMEs foundation

[24] Kenya publishes adoption roadmap and announced adoption from 1 January 2028.

may also be less suited to the accountability expectations and reporting needs of some Tier 1 NFP entities, depending upon the complexity of their operations.

C. IFRS (RDR)

Reporting framework overview

134. IFRS is a comprehensive suite of international accounting standards developed by the International Accounting Standards Board (IASB). The standards were designed primarily for for-profit entities and capital market participants, with a focus on the information needs of investors, lenders and other creditors. IFRS-based reporting is currently used extensively within the for-profit reporting environment in New Zealand, Australia and internationally. Further information about IFRS, NZ IFRS and NZ IFRS with RDR is provided in the IFRS factsheet – see Appendix 3.

Implications for mandated Tier 1 and Tier 2 NFP entities

135. A key strength of IFRS is that it provides a technically robust, internationally recognised and well-developed framework for accounting for complex transactions and events. It contains comprehensive recognition, measurement, presentation and disclosure requirements and is supported by extensive guidance, implementation experience, education material, software solutions and professional capability.

136. As the most widely adopted and supported reporting framework globally, IFRS also benefits from a large, and continuously growing, body of digital content, implementation knowledge and practical application experience across multiple jurisdictions. This may make it particularly well positioned to benefit from future technologies, including artificial intelligence, which could assist with automating or simplifying aspects of standards application and financial reporting processes.

137. However, IFRS was developed primarily for for-profit entities operating in commercial and capital-market environments rather than organisations whose main objective is to deliver public benefit outcomes. As a result, it does not specifically address many of the transactions and accountability relationships commonly found in the NFP sector. For example, donations, grants, volunteer services, fundraising activities and other non-exchange transactions are not a primary focus of the framework. Although, we note IFRS standards contain general principles that could be applied to account for these transactions, even though it does not provide NFP-specific guidance.

138. A significant limitation of an IFRS-based framework is potentially the limited ability to adapt or simplify requirements for New Zealand NFP entities. Given the licensing agreement in place to use IFRS Standards, and to fully benefit from international comparability, development processes and global guidance, modifications to the recognition and measurement requirements are generally not appropriate, as the benefits of maintaining IFRS alignment outweigh potential divergence. As a result, additional guidance, supplements or workarounds may be needed to make the framework suitable for NFP reporting.

139. Similar to IPSAS, the IFRS framework may impose a level of complexity that is disproportionate for some less complex NFP entities and periodic updates to the standards suite may increase implementation costs and contribute to change fatigue.

140. Adopting IFRS would represent a significant change from the current PBE Standards framework and revert to requirements which were in place prior to the ASF being created. Although PBE Standards are largely based on IPSAS, which in turn draws extensively on IFRS, and the two frameworks are broadly interoperable, there are important differences in underlying principles and in certain recognition, measurement, presentation, and disclosure requirements, particularly around reflecting the service potential of assets rather than pure economic benefits. While IFRS-based systems and expertise are

widely available, and used by NFP entities in the past, the transition would still involve significant cost and disruption.

Additional Tier 2 NFP considerations

141. Under the IFRS framework, Tier 2 entities would apply IFRS RDR, means Tier 2 entities would receive disclosure relief while continuing to apply the full recognition and measurement requirements of IFRS. Similar to PBE Standards, simplification would be achieved primarily through reduced disclosures rather than through simplified accounting requirements. Consequently, many of the complexities associated with accounting for transactions and events would remain and may be disproportionate for some less complex Tier 2 NFP entities.

142. In addition, adopting IFRS for Tier 2 NFP entities would reduce interoperability with Tier 1 NFP entities if Tier 1 continued to apply a PBE Standards. Different recognition and measurement requirements could result in reduced comparability between tiers and create challenges for movement between tiers, group reporting and consolidation processes.

Overall observations

143. Overall, IFRS provides a comprehensive, internationally recognised and technically robust framework. Adoption could improve alignment with Australia (where IFRS forms the basis of their reporting requirements) and leverage existing international reporting infrastructure, systems and professional capability. However, IFRS was developed primarily for for-profit entities and does not specifically address the distinctive characteristics and reporting needs of NFP entities. Alternative framework: Australian-adapted IFRS framework (NFP)

D. Australian-adapted IFRS framework (NFP)

Reporting framework overview

144. Australian Accounting Standards (**AASB Standards**) are an IFRS-based suite of accounting standards issued by the Australian Accounting Standards Board (**AASB**). The framework incorporates IFRS Accounting Standards and adapts them where necessary for the Australian context, including additional requirements and guidance for not-for-profit entities. In practice, these adapted requirements apply to charities with annual revenue of at least $500,000 AUD[25] and non-charitable companies limited by guarantee with revenue of at least $250,000 AUD[26] that are required to prepare annual financial reports. Reporting obligations for incorporated associations are determined under state and territory associations incorporation legislation. Thresholds differ by jurisdiction, although several major jurisdictions (including Victoria, Western Australia and New south Wales) now use revenue thresholds broadly aligned with the ACNC charity size thresholds of A$500,000.[27]

145. Australian Tier 1 NFP entities apply the full suite of Australian Accounting Standards, while Tier 2 entities apply the same recognition and measurement requirements with simplified disclosures under AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. For further information please see Appendix 4 AASB Standards factsheet. Additionally, the paper on Reporting Requirements in Australia for public sector and private NFP entities, may also provide useful context for this framework options being considered.

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[25] The Australian Charities and Not-for-profits Commission (ACNC) website provides overview of Australian charities reporting requirements.

[26] Corporations Act 2001 sets reporting requirements for non-charitable companies limited by guarantee – see sections 285A and 45B

[27] Source: WA Tiered financial reporting - Consumer Protection - LGIRS; NSW Financial reporting requirements for Tier 1 (large) and Tier 2 (small) incorporated associations| NSW Government; Victoria Financial statements and auditing requirements for incorporated associations - Consumer Affairs Victoria. The CPA 2020 report Companies limited by guarantee and incorporated associations Reporting and audit-review obligations provides a useful summary of incorporated association reporting requirements across Australian jurisdictions. However, a number of jurisdictions have increased their reporting thresholds since the report's publication in 2020.

Implications for mandated Tier 1 and Tier 2 NFP entities

146. A key strength of the Australian framework is that it is a high-quality, principles-based and IFRS-based framework. It provides a comprehensive basis for reporting complex transactions and includes Australian NFP-specific requirements developed to address transactions commonly encountered by NFP entities in Australia.

147. Although AASB Standards include NFP-specific modifications, there remains a risk that New Zealand-specific reporting considerations, including Māori perspectives and local legislative settings, may require additional consideration if an Australian-based framework were adopted. New Zealand would also have limited influence over future Australian standard-setting decisions and priorities. In addition, given Australian NFPs are generally larger in size and scale than New Zealand NFPs, reporting requirements developed in Australia may not be proportionate or relevant to New Zealand.

148. As an IFRS-based framework it may impose a level of complexity that is disproportionate for some NFP entities and periodic updates to the standards suite may increase implementation costs and contribute to change fatigue. Adopting AASB Standards would support alignment with Australia and may improve comparability for organisations operating across the Tasman, including entities that are part of Australian groups, receive funding from Australian organisations, or share common reporting processes and systems. However, the framework would provide less comparability with jurisdictions that apply IPSAS-based frameworks or other NFP-specific reporting frameworks, given it is grounded in for-profit reporting.

Additional Tier 2 NFP considerations

149. For Tier 2 entities, Australia applies a reduced disclosure approach through AASB 1060. Similar to New Zealand's current PBE Standards with RDR model, Tier 2 entities continue to apply the same recognition and measurement requirements as Tier 1 entities, with simplification achieved primarily through reduced disclosures rather than through simplified accounting requirements. Consequently, many of the complexities associated with accounting for transactions and events would remain and may be disproportionate for some less complex Tier 2 NFP entities.

150. In addition, adopting AASB Standards for Tier 2 NFP entities would reduce interoperability with Tier 1 NFP entities if Tier 1 continued to apply PBE Standards. Different recognition and measurement requirements could result in reduced comparability between tiers and create challenges for movement between tiers, group reporting and consolidation processes. We note the disclosure requirements in AASB 1060 are different to the current Tier 2 PBE Standards RDR disclosure requirements. While AASB 1060 generally results in a lower overall volume of disclosures, it requires some disclosures that are not currently included in Tier 2 NFP RDR. As a result, NFPs may be required to provide additional information in specific areas despite the overall reduction in disclosure requirements, if adopted in New Zealand.

Overall observations

151. Overall, AASB Standards provide a high-quality, IFRS-principles-based framework that is supported by a mature reporting ecosystem and offers strong trans-Tasman alignment. The framework includes NFP-specific requirements and may be familiar to many preparers, auditors and users operating across New Zealand and Australia.

152. The trade-offs are that the framework may not fully address New Zealand-specific NFP reporting and accountability requirements, provides limited comparability with non-Australian frameworks, and continues to require implementation of the full IFRS-based standards suite which may be more complex than necessary for some NFP entities. For Tier 2 entities, simplification is achieved primarily through reduced disclosures rather than through relief from recognition and measurement requirements.

E. Locally modified standards

Reporting framework overview

153. 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.

154. 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 5.

Implications for mandated Tier 1 and Tier 2 NFP entities

155. 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 and Tier 2 entities. The implications would depend on the design of the locally modified framework, the suitability of the source framework selected, 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.

156. If an IFRS-based framework were used as the source framework, licensing arrangements would need to be considered. Current IFRS licensing arrangements may limit the extent to which New Zealand could selectively use, amend or combine IFRS Accounting Standards outside the permitted adoption model[28]. Other jurisdiction's standards may contain similar or more restrictive licensing limitations as well.

157. 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. 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.

158. Many NFP entities appear to operate primarily within New Zealand and obtain funding from domestic donors, grant providers, government agencies and local communities. Consequently, the international comparability benefits associated with IPSAS/IFRS-aligned frameworks may be less significant for many NFP entities than they are for for-profit entities. Nevertheless, some NFP entities are part of international networks, receive funding from overseas sources, or work closely with Australian and other international counterparts. For these entities, alignment with internationally recognised standards may facilitate reporting to funders and stakeholders, support comparability across jurisdictions, and reduce reporting complexity where information is shared within a wider group structure. The significance of these benefits will depend on the nature and scale of an entity's international activities.

Additional Tier 2 NFP considerations

159. Under a locally modified framework, there may be scope to provide relief not only from disclosure requirements, but also from selected recognition and measurement requirements where there is

[28] IFRS Foundation, Licensing of IFRS Standards for adoption and jurisdictional use. This page outlines the IFRS Foundations adoption and licensing arrangements for jurisdictions using IFRS Accounting Standards.

sufficient evidence that such relief would be appropriate and would better reflect the needs and capabilities of Tier 2 NFP entities. This could potentially reduce preparation costs and complexity beyond the relief currently available under the reduce disclosure requirements approach.

160. However, providing recognition and measurement relief may reduce interoperability between Tier 1 and Tier 2 NFP entities. The significance of these effects would depend on the nature and extent of any recognition and measurement differences introduced.

Overall observations

161. Overall, locally modified standards developed specifically for New Zealand NFPs may provide greater domestic flexibility and may support a more proportionate framework for some NFP 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.

162. While international comparability may be more important for for-profit entities, it may still be relevant for some NFP entities, particularly those that are part of international networks, receive funding from overseas sources, or work closely with Australian and other international counterparts.

Summary observations and framework options for consultation

163. The assessment indicates that each reporting framework option could provide a basis for Tier 1 and Tier 2 NFP reporting, but each would involve different implications for mandated 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 1 and Tier 2 NFP entities.

164. The assessment identified different benefits and trade-offs across the five framework options.

- **PBE Standards / PBE Standards with RDR** provide continuity, a mature reporting ecosystem, interoperability, and a framework that reflects many NFP-specific transactions through its IPSAS-based foundation and New Zealand modifications. However, the framework may be considered too complicated for some entities, Tier 2 relief is achieved through reduced disclosures rather than simplified recognition and measurement requirements. Whether the benefits of continuity and interoperability outweigh complexity concerns is ultimately a matter for stakeholder feedback.

- **INPAS** is the only internationally developed framework designed specifically for NFP entities and may provide a more proportionate reporting framework through simplification of recognition, measurement and disclosure requirements. However, it is newly developed and largely untested in practice and may not be suitable for complex transactions and complex group structures of some Tier 1 NFP entities. Whether the benefits of simplification outweigh implementation uncertainty and ecosystem transition costs is ultimately a matter for stakeholder feedback.

- **IFRS/IFRS RDR** provides a comprehensive, internationally recognised and technically robust framework supported by extensive implementation experience and infrastructure. However, it does not specifically address many NFP transactions and accountability relationships. It would also reduce alignment with the existing NFP reporting framework and offer limited flexibility for New Zealand-specific NFP requirements. For Tier 2 entities, simplification would remain largely through reduced disclosure requirements.

- **Australian-adapted IFRS framework (NFP)** provides a mature IFRS-based framework with NFP-specific requirements and strong trans-Tasman alignment. However, it may not fully reflect New Zealand-specific NFP reporting needs, accountability expectations or Māori perspectives. Similar to the current Tier 2 approach, simplification is achieved primarily through reduced disclosures rather than recognition and measurement relief. Whether trans-Tasman alignment benefits outweigh concerns regarding local relevance is ultimately a matter for stakeholder feedback.

- **Locally modified standards** may provide greater domestic flexibility, but there may be significant impacts on the comparability, maintenance, transition requirements and ecosystem implications for mandated entities. This option could be explored further with stakeholders, including through an indicative methodology to explain what the approach could mean in practice.

165. As such, the framework options proposed to be tested further with stakeholders in the public discussion paper for Tier 1 and Tier 2 NFP entities are all the above-mentioned frameworks. 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 be retained or to replace the current framework.

166. We also note that optionality within Tier 1 and Tier 2 NFP may provide flexibility for some entities and may better accommodate the diversity of the population, which includes entities with different levels of organisational complexity, legal forms, purposes, operating models and funding arrangements. However, it 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 1 and Tier 2 NFP should be considered and, if so, in what circumstances and with what implications for the Tier 1 and Tier 2 NFP 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 accountability considerations, as well as any other contextual information relevant to the Tier 1 and Tier 2 NFP entities?

Q2. Does the Board have any **FEEDBACK** on the framework options analysis presented, including whether it appropriately captures the considerations relevant to assessing the suitability of the frameworks for Tier 1 and Tier 2 NFP entities?

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

167. We propose including the following blue extract in the public discussion paper to summarise the Tier 1 and Tier 2 NFP reporting framework analysis to test and seek stakeholder feedback on all framework options considered for these tiers, along with Appendices 1-7 below.

168. The paper will also summarise the implications of INPAS, IFRS/IFRS RDR, Australian-adapted IFRS framework (NFP), and locally modified standards, and questions to be explored with stakeholders.

169. The proposed text may be refined during final drafting of the discussion paper to ensure overall coherence and flow.

Draft Discussion Paper text for Tier 1 NFP

Background for Tier 1 not-for-profit reporting

The Accounting Standards Framework (**ASF**) review considers whether the current Tier 1 not-for-profit (**NFP**) reporting framework remains appropriate for entities required to apply Tier 1 NFP reporting requirements. Tier 1 NFP entities apply full Public Benefit Entity Standards (**PBE Standards**).

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 considers whether the current Tier 1 NFP reporting framework, or an alternative framework option, is most appropriate for entities required to report in Tier 1.

Tier 1 NFP entities are public benefit entities with public accountability or annual expenses greater than $33 million. They play a critical role in delivering social, cultural, health, education and community services across New Zealand and are typically economically significant organisations that control substantial resources. General purpose financial reporting enables Tier 1 NFP entities to communicate with users and demonstrate accountability for the stewardship of donated, granted and other resources entrusted to them.

Tier 1 NFPs often operate across multiple locations, programmes or service streams. Some also have complex organisational and group structures, including subsidiaries, controlled entities or international operations. Compared with Tier 2 entities, Tier 1 entities generally have greater access to finance expertise, specialist systems, governance resources and external professional support. As a result, group reporting, consolidation and cross-border reporting considerations may be more significant for Tier 1 NFP entities.

The Public Benefit Entity Conceptual Framework identifies service recipients and resource providers, and their representatives, as the primary users of general purpose financial reports. For Tier 1 NFP entities, resource providers may include government funders, donors, grant providers, lenders and members, while service recipients may include individuals, groups and communities that benefit from the entity's activities. These users rely on general purpose financial reports as a common source of independently prepared information to assess how resources have been obtained, managed and used to deliver public benefit outcomes, and to evaluate accountability, stewardship and financial sustainability. While some users may have access to additional information through funding, governance or regulatory arrangements, general purpose financial reports provide a consistent basis for meeting the information needs of primary users.

Alternative frameworks explored for Tier 1 NFP reporting

We have explored the current PBE Standards based on IPSAS framework alongside selected alternative framework options for mandated Tier 1 NFP entities. These options include INPAS, IFRS, Australian-adapted IFRS framework (NFP) and New Zealand locally modified standards. The options have been selected to test different approaches to balancing comparability, proportionality, operability, domestic flexibility and wider reporting ecosystem implications. Optionality between different frameworks within Tier 1 NFP is also considered as a possible design feature of the overall ASF.

Through our analysis, we have identified all the above-mentioned framework options appropriate to test further with stakeholders for Tier 1 NFP entities. We have outlined an overview of the framework and what the implications may be on Tier 1 NFP entities and stakeholders if such a framework was used. Supporting material in this discussion paper has also been included in the appendices, which includes factsheets on key information around reporting frameworks, an indicative approach summary for locally modified standards and the detailed Tier 1 NFP framework option assessment.

Questions for stakeholders

- **Do you consider that PBE Standards based on IPSAS remains appropriate as the Tier 1 not-for-profit reporting framework? Why or why not, including in relation to comparability, proportionality, operability, and user information needs?**
- **Do you consider that INPAS should be considered as a possible Tier 1 not-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 IFRS should be considered as a possible Tier 1 not-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 Australian-adapted IFRS framework (NFP) should be considered as a possible Tier 1 not-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 1 not-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 1 not-for-profit entities have optionality to apply alternative 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 1 not-for-profit entities, including any other framework or design features not discussed?**
- **What factors should be given the most weight when assessing the Tier 1 not-for-profit reporting framework — for example, comparability, proportionality, cost, operability, user information needs, group reporting, international alignment, or domestic flexibility?**

Draft Discussion Paper text for Tier 2 NFP

Background for Tier 2 not-for-profit reporting

The Accounting Standards Framework (**ASF**) review considers whether the current Tier 2 not-for-profit (**NFP**) reporting framework remains appropriate for entities required to apply Tier 2 NFP reporting requirements. Tier 2 NFP entities apply Public Benefit Entity Standards with Reduced Disclosure Requirements (**PBE Standards with RDR**). This framework retains the same recognition, measurement and presentation requirements as full Public Benefit Entity Standards (**PBE Standards**), while providing reduced disclosure requirements.

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 considers whether the current Tier 2 NFP reporting framework, or an alternative framework option, is most appropriate for entities required to report in Tier 2.

Tier 2 NFP entities are public benefit entities that do not have public accountability and have annual expenses between $5 million and $33 million. They play an important role in delivering public benefit services and are often significant organisations within their communities or sectors. General purpose financial reporting enables Tier 2 NFP entities to communicate with users and demonstrate accountability for the stewardship of donated, granted and other resources entrusted to them.

The Tier 2 population is diverse and includes entities with different legal structures, purposes, operating models, funding sources and reporting capabilities. Compared with Tier 1 NFP entities, Tier 2 entities are more likely to operate with smaller finance teams, fewer specialised resources and more limited reporting infrastructure.

The Public Benefit Entity Conceptual Framework identifies service recipients and resource providers, and their representatives, as the primary users of general purpose financial reports. For Tier 2 not-for-profit entities, resource providers may include government funders, donors, grant providers, lenders and members, while service recipients may include individuals, groups and communities that benefit from the entity's activities. These users rely on general purpose financial reports as a common source of independently prepared information to assess how resources have been obtained, managed and used to deliver public benefit outcomes, and to evaluate accountability, stewardship and financial sustainability. While some users may have access to additional information through funding, governance or regulatory arrangements, general purpose financial reports provide a consistent basis for meeting the information needs of primary users.

Alternative frameworks explored for Tier 2 NFP reporting

We have explored the current PBE Standards based on IPSAS with RDR framework alongside selected alternative framework options for mandated Tier 2 NFP entities. These options include INPAS, IFRS RDR, Australian-adapted IFRS framework (NFP) and New Zealand locally modified standards. The options have been selected to test different approaches to balancing comparability, proportionality, interoperability with Tier 1 NFP, operability, domestic flexibility and wider reporting ecosystem implications. Optionality between different frameworks within Tier 2 NFP is also considered as a possible design feature of the overall ASF.

Through our analysis, we have identified all above-mentioned framework options appropriate to test further with stakeholders for Tier 2 NFP entities. We have outlined an overview of the framework and what the implications may be on Tier 2 NFP 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, an indicative approach summary for locally modified standards and the detailed Tier 2 NFP framework option assessment.

Questions for stakeholders

- **Do you consider that PBE Standards based on IPSAS with RDR remains appropriate as the Tier 2 not-for-profit reporting framework? Why or why not, including in relation to comparability, proportionality, operability, and user information needs?**
- **Do you consider that INPAS should be considered as a possible Tier 2 not-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 IFRS RDR should be considered as a possible Tier 2 not-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 Australian-adapted IFRS framework (NFP) should be considered as a possible Tier 2 not-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 not-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 not-for-profit entities have optionality to apply alternative 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?**
- **For Tier 2 not-for-profit entities, do you consider that disclosure concessions provide sufficient and effective relief from reporting requirements? Why or why not, and would another form of concessions, like recognition and measurement concessions, be more effective?**
- **Do you have any other comments on alternative reporting frameworks for Tier 2 not-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 not-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 have any **FEEDBACK** on whether the discussion paper should seek stakeholder views around optionality – the ability to apply an alternative reporting framework, 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. These appendices (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	PBE Standards factsheet	Provides supporting information on IPSAS framework, PBE Standards and PBE Standards RDR.	Include in Discussion Paper
Appendix 2	INPAS factsheet	Provides supporting information about INPAS Accounting Standard as an alternative NFP reporting framework.	Include in Discussion Paper
Appendix 3	IFRS factsheet	Provides supporting information on IFRS Accounting Standards and NZ IFRS RDR as an alternative Tier 2 reporting framework. *Same as the factsheet discussed at the August NZASB meeting*	Include in Discussion Paper
Appendix 4	Australian standards factsheet	Provides supporting information on Australian Accounting Standards and Australian reduced disclosure requirements (AASB 1060) as an alternative Tier 2 reporting framework.	Include in Discussion Paper
Appendix 5	Locally modified standards – indicative approach	Provides supporting information about a locally modified standards approach and its framework-level implications. *Changes to the factsheet discussed at the August NZAB meeting highlighted in blue*	Include in Discussion Paper
Appendix 6	Tier 1 NFP entities: framework options analysis	Provides the detailed assessment of each Tier 1 NFP reporting framework option against the framework-level evaluation criteria.	Include in Discussion Paper
Appendix 7	Tier 2 NFP entities: framework options analysis	Provides the detailed assessment of each Tier 2 NFP reporting framework option against the framework-level evaluation criteria.	Include in Discussion Paper
Appendix 8	Financial and operational profile of Tier 1 and Tier 2 registered charities	Provides a high-level overview of the income sources, expenditure patterns, assets and operational characteristics of Tier 1 and Tier 2 registered charities	Not to include in Discussion Paper
Appendix 9	National financial reporting standards and guidance for NFPs	Provides examples of reporting standards and guidance for NFPs developed in other jurisdictions.	Not to include in Discussion Paper

Appendix 1 – PBE Standards factsheet

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

Fact Sheet

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

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

What the IPSAS framework is

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

IPSAS®

At a glance

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

Who IPSAS is mainly designed for

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

IPSAS is an international public sector benchmark

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

Key characteristics of the IPSAS framework

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

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PBE Standards are based on IPSAS and tailored for New Zealand

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

How PBE Standards works in practice

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

Recognition requirements determine what items are reported

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

Measurement requirements determine how reported items are valued

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

Presentation and disclosure requirements help communicate items to users

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

New Zealand reduced-disclosure context

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

PBE Standards are not a single accounting standard

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

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

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Appendix 2 – INPAS factsheet

International Non-Profit Accounting Standard (**INPAS**) Fact Sheet

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

Overview of the INPAS framework

What INPAS is

The International Non-Profit Accounting Standard (**INPAS**) is an international financial reporting framework issued by International Non-Profit Reporting Foundation (**INPRF**). It is designed specifically for non-profit organisations (**NPOs**).

INPAS establishes a common financial reporting framework for NPOs that improves transparency, accountability, comparability and decision-usefulness of financial reports. The framework builds on International Financial Reporting Standards for Small and Medium-Sized Entities (**IFRS for SMEs**) and also draws on International Public Sector Accounting Standards (**IPSAS**) in some areas, while adapting them to reflect the characteristics, transactions and reporting needs of NPOs.

International Non-Profit Accounting Standard

At a glance

INPAS is the first international financial reporting standard developed specifically for not-for-profit entities. It provides simplified financial reporting framework intended to support a wide range of not-for-profit entities. However, the standard is newly issued and has not yet been widely tested in practice and may result in unanticipated challenges.

Who INPAS is mainly designed for

INPAS is designed primarily for small and medium-sized NPOs, but it intends to be relevant to a broad range of NPOs. INPAS has an initial focus on those NPOs where accrual-based financial reporting is needed to recognise and measure assets and liabilities and a range of more complex transactions and activities.

Emerging international framework untested in practice

INPAS is newly developed and published only in October 2025 and is not currently used by any NPO globally for their financial reporting. While one jurisdiction has announced adoption from 1 January 2028 and some other jurisdictions are currently considering INPAS for their local reporting requirements, the framework is yet to be tested or implemented at a large scale or benefit from application support and refinements over time.

INPAS is a single standard

INPAS is built around a single accounting standard supplemented by implementation guidance and other supporting materials designed to promote consistent application and comparable financial reporting. The INPAS framework includes:

- **INPAS Standard** – (approx. 300 pages) Standard issued by the INPRF in October 2025, organised into sections such as (*Concepts and principles (A), Revenues (C) etc*).
- **INPAS Implementation Guidance** – (approx.180 pages) Additional non-mandatory material published by the INPRF to support consistent application and understanding of the INPAS standard.

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How INPAS works in practice

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

INPAS is developed and maintained by the INPRF, who follows a formal due process involving stakeholder engagement, public consultation and exposure drafts when developing or amending the Standard. In general, it is expected that updates to INPAS will be made less frequently than updates to full IPSASB Standards. While the first edition of INPAS addressed NPO-specific topics prioritised from the 2021 Consultation paper, subsequent editions will address additional topics. These will be determined through a public consultation.

High-level comparison of INPAS and IPSAS reporting frameworks

Area	INPAS	PBE Standards based on IPSAS
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	Newly issued framework – untested in practice and may require refinements once implementation occurs.	PBE Standards are based on IPSAS which are adopted internationally across several jurisdictions.
Global comparability	Seeks to improve comparability of financial reporting across NPOs internationally.	Designed to support international comparability.

Illustrative approaches for recognition and measurement (non-exhaustive):

Financial Statement Line Item	INPAS	PBE Standards based on IPSAS
Revenue	Differentiate between: • grants, donations, gifts and similar transfers – recognition and measurement largely aligned with IPSAS 47 *Revenue*; and • revenue from contracts with customers (such as providing services, goods or other assets to customers) – revenue is recognised when or as the entity satisfies delivery obligations. Requires recognition of services in kind that are critical to an NPO's mission.	PBE Standards differentiate between revenues • from non-exchange transactions – revenue is recognised when or as present obligations are satisfied or immediately if there are no such obligations • from exchange transactions – revenue recognition depends on type of revenue and • from construction contracts Does not require recognition of services in kind that are critical to an NPO's mission.
Expenses	Accounting for grants and donations largely aligned with IPSAS 48 *Transfer Expenses* – differentiates expenses from transactions without and with fulfilment rights.	Various IPSASB-based standards – There is no specific standard for transfer expenses. [29]
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 some situations.

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

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.	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.
Inventories	Measured at the lower of cost and selling price less costs to complete and sell. Inventories acquired through donation measured initially at fair value. Allows certain types of donated inventory to not be recognised until it is sold, used or distributed to service recipients. Reversals of inventory write-downs may be required in some circumstances.	Generally measured at the lower of cost and net realisable value, except certain inventories are measured at cost, adjusted for any loss of service potential. Inventories acquired through a non-exchange transaction measured initially at fair value, with exemptions for certain types of inventories. 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 (maximum 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 surplus or deficit.	Measured using amortised cost, fair value through Other Comprehensive Revenue and Expense (**OCRE**) or fair value through surplus or deficit depending on classification. Certain assets are subject to expected credit loss requirements.
Narrative information	INPAS requires narrative information covering: • Overview of the NPO; • Performance reporting; • Financial objectives and strategies; • Analysis of financial statements; • Principal risks and uncertainties.	PBE Standards do not require disclosure of financial objectives and strategies and analysis of financial statements. Other information required by INPAS is also broadly required by PBE Standards. PBE FRS 48 *Service Performance Reporting* provides detail guidance for performance reporting and an overview of not-for-profit entity.
Net Assets	Requires transparency regarding donor restrictions and designated funds. Provides guidance about restricted and unrestricted funds. Doesn't have the concept of OCRE.	Limited guidance on restricted and unrestricted funds. Requires presentation of OCRE.
NPO specific guidance	INPAS includes guidance on NPO-specific activities, such as fundraising costs, services provided by volunteers, benefits received by volunteers, and donated goods.	Limited guidance specific to volunteer services, fundraising and donated goods.

Other areas not covered within INPAS

There are also several areas where PBE Standards contain requirements which are not within INPAS but may still be helpful to some PBEs. These include, but are not limited to:

- Insurance contracts;
- Service concession arrangements (operator);
- Non-current assets held for sale and discontinued operations; and
- Interim financial reporting, prospective financial statements and summary financial statements.

Appendix 3 – IFRS factsheet

Same as the factsheet discussed at the August NZASB meeting

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 clarifies the application of requirements in specific situations.
- **The Conceptual Framework** – Overarching concepts that support the development and application of IFRS, including principles relating to recognition, measurement and presentation.
- **Supporting guidance and educational material** – Additional non-mandatory material published by the IFRS Foundation and IASB to support consistent application and understanding of the standards.

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Appendix 4 – Australian Accounting Standards factsheet

Australian Accounting Standards (**AASB Standards**) Fact Sheet

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

Overview of the AASB framework

What AASB Standards are

Australian Accounting Standards (**AASB Standards**) are the principal accounting requirements used for preparing general purpose financial statements in Australia. They are issued by the Australian Accounting Standards Board (**AASB**)[30].

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

Australian Government
Australian Accounting Standards Board

At a glance

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

Who AASB Standards are mainly designed for

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

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

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

How AASB Standards work in practice

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

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

Australian reduced-disclosure context

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

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

High-level comparison of AASB Standards and IPSAS reporting frameworks

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

Illustrative approaches for measurement:

Financial Statement Line Item	Australian-adapted IFRS framework (private sector NFP)	PBE Standards based on IPSAS
Revenue	Revenue from contracts with customers (such as providing services, goods or other assets to customers) is based on IFRS 15 – revenue is recognised when or as the entity satisfies performance obligations) For NFP entities, contracts that are unenforceable or not sufficiently specific – revenue is recognised immediately on recognising the asset received with some exceptions	PBE Standards differentiate between revenues[31] • from non-exchange transactions – revenue is recognised when or as present obligations are satisfied or immediately if there are no such obligations • from exchange transactions – revenue recognition depends on type of revenue and • from construction contracts
Expenses	Various IFRS-based standards – There is no specific standard for transfer expenses.	Various IPSASB-based standards – There is no specific standard for transfer expenses.[32]

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

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

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

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Changes to the factsheet discussed at the August NZAB meeting highlighted in blue

Appendix 5 – Locally modified standards – Indicative approach

Consider locally modified standards

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

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

Understanding the purpose of locally modified standards

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

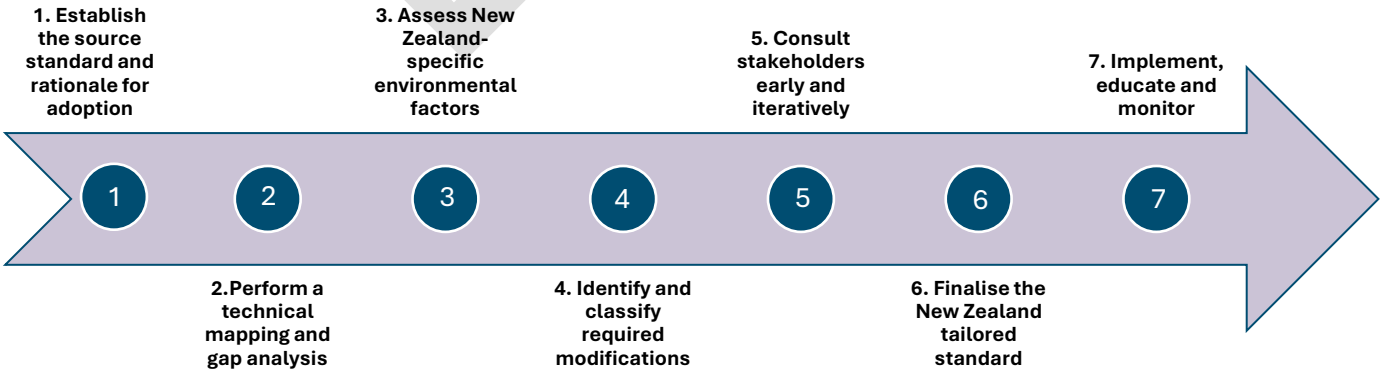
The importance of international comparability may differ across tiers. Locally modified standards may be more relevant where international capital market comparability is less central, but any move away from international standards could reduce comparability and access to international guidance and practice.

Outline of the possible process

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

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

Indicative steps to follow when developing this framework



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1. Establish the source standard and rationale for adoption

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

Relevant considerations might include:

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

2. Perform a technical mapping and gap analysis

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

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

3. Assess New Zealand-specific environmental factors

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

- **Legal and regulatory context:** Companies Act 1993, Public Finance Act 1989, Crown Entities Act 2004, Local Government Act 2002, Financial Markets Conduct Act 2014, Charities Act 2005,and other relevant for-profit, public sector and not-for-profit specific legislative requirements
- **Public sector structure:** Distinctive features of the Crown, local government, Māori entities, and mixed-ownership models.
- **Economic characteristics:** Size of capital markets, prevalence of small-to-medium sized enterprises, cooperative structures, iwi organisations.
- **User needs:** Taxpayers, ratepayers, service recipients, resource providers and their representatives, investors, donors, funders and lenders where relevant, public accountability requirements.
- **Existing NZ reporting tiers:** Whether the standard must be adapted for multi-tier reporting.

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4. Identify and classify required modifications

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

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

Any modifications would need to be supported by a clear rationale, including why a change is considered necessary to maintain relevance, coherence or operability in New Zealand. A key consideration would be whether any change improves cost-effectiveness without undermining the accountability and decision-making usefulness of information for users of financial statements. These modifications will also keep simplification in mind.

Focus on key considerations

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

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

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

- ***User-needs alignment*** *– Does the requirement provide information that primary users of NZ financial statements need? Are the information needs of NZ users (investors, creditors, iwi/Māori entities, public sector stakeholders, NFP donors) different from those assumed in the foreign standard?*
- ***Cost–benefit proportionality*** *– Are compliance costs reasonable relative to the benefits for NZ users? Do the requirements suit the size and nature of small and medium entities within NZ, or would smaller entities face disproportionate burdens?*
- ***Domestic legal and regulatory fit*** *– Does the requirement align with NZ legislation, or are there conflicts with 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 requirement create any conflicts with other NZ reporting frameworks (e.g. climate-related disclosure framework)?*

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

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

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

- ***Availability of Reliable NZ-Specific Inputs*** *– Are inputs readily available in NZ markets to allow for the measurement requirements to be practical? Do thin or illiquid NZ markets make measurement models impractical?*
- ***Cost Burden*** *– Does the measurement basis impose excessive valuation costs (e.g., annual revaluations for small entities)?*
- ***Relevance to NZ Users*** *– Would a simpler measurement basis (e.g., cost instead of fair value) still meet user needs?*

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

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

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

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

5. Consult stakeholders early and iteratively

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

- Relevant preparers (corporates, small-to-medium enterprises, public sector entities, not-for-profit entities);
- Auditors and professional bodies;

- Investors, analysts, and public sector users;
- Sector-specific groups; and
- Regulators and other stakeholders (Financial Markets Authority, Treasury, Department of Internal Affairs, The Audit Office).

6. Finalise the New Zealand-tailored standard

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

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

7. Implement, educate and monitor

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

- Publishing implementation guidance, FAQs, and illustrative examples;
- Conducting outreach sessions and webinars;
- Monitoring early application issues; and
- Establishing a post-implementation review timeline (typically 3-5 years after the effective date of the requirements).

Consider the potential advantages

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

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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.

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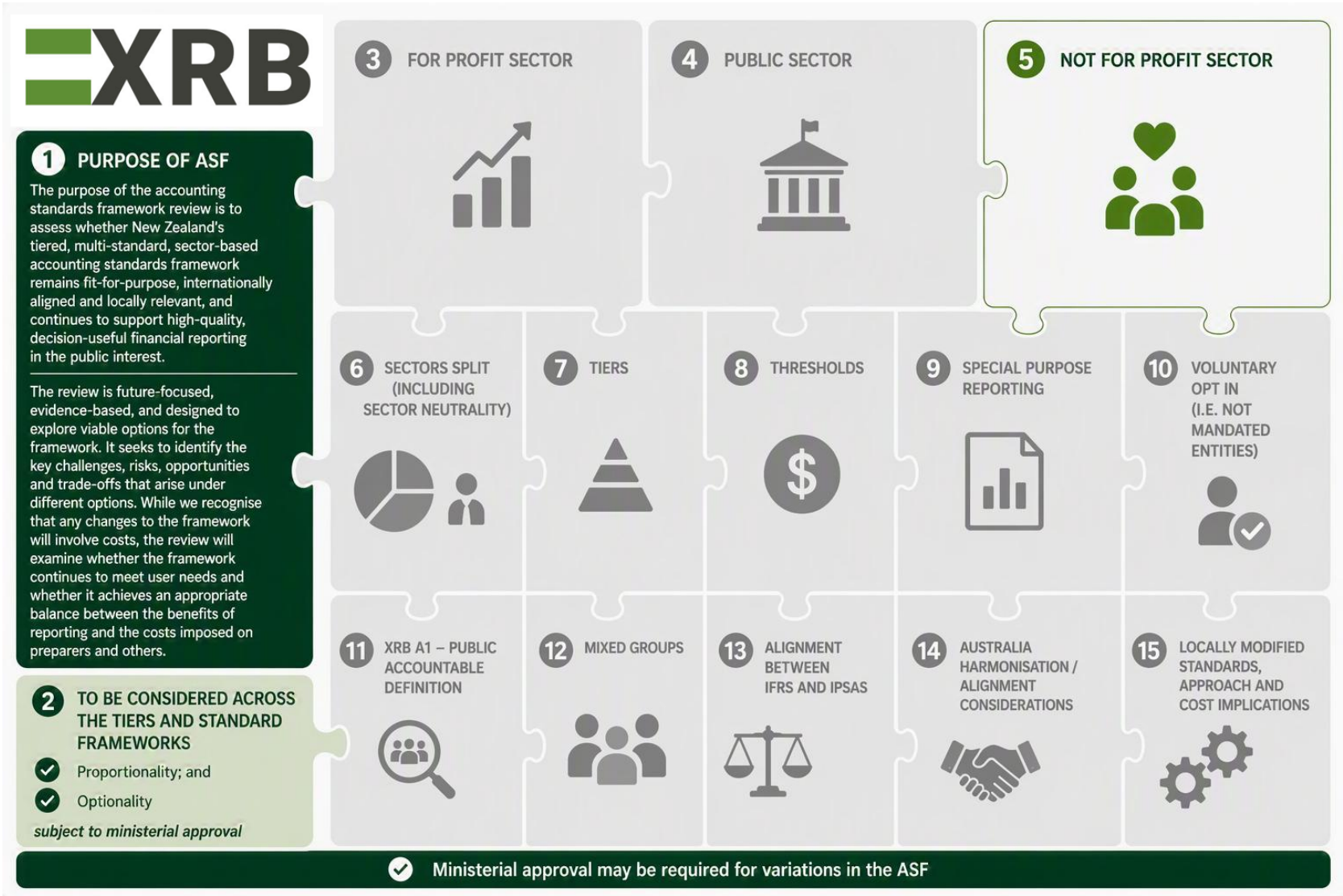
Appendix 6 – Tier 1 not-for-profit entities: framework options analysis

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

The NFP alternative framework key criteria analysis

ASF Review – Where the NFP review fits in

The NFP sits within the wider Accounting Standards Framework review – as element 5.



NFPs in the ecosystem

A distinct sector in New Zealand's social and economic ecosystem

- NFPs deliver public-benefit services, mobilising volunteers and donations, and building social capital in ways neither government nor business does.
- Mission-driven and accountable to donors, members and communities rather than shareholders – a distinct purpose, funding model and accountability that warrant a stand-alone reporting lens.
- Legal forms - incorporated societies (the most common), charitable trusts, charitable companies, etc. – may register as a charity if eligible.
- The policy intent originally described in the Regulatory Impact Statement 10-11/1187 intended that registered charities should have a reporting requirement, and noted that scalability of reporting requirements are important for this sector.
- It specifically initially estimated ~4% of registered charities falls within the 'large' category, and GAAP accounting is appropriate for those. During our 2024 revision of thresholds, only ~2.9% of registered charities falls within the current Tier 1 and Tier 2 PBEs. The remaining ~96% of registered charities falls within tier 3 and tier 4, being our locally developed and simplified frameworks.

Legislative and regulatory setting

Key legislative instruments (not exhaustive list)

- **Charities Act 2005** – registration and regulation of charities;
- **Incorporated Societies Act 2022** – governance of societies (replaced the 1908 Act);
- **Charitable Trusts Act 1957** – incorporation of charitable trust boards;
- **Financial Reporting Act 2013** – establishes key financial reporting concepts and provides the framework for financial reporting duties under other enactments;
- **Companies Act 1993** – governs incorporation, legal personality, duties and rights, constitutions, amalgamations, liquidation, etc.
- **Etc.**

Regulatory and oversight bodies

- **Charities Services (DIA)** – administers the charities registration system, monitors compliance with the Charities Act 2005, and receives annual returns from registered charities
- **Charities Registration Board / Te Rātā Atawhai** – makes independent decisions on the registration and deregistration of charities
- **Companies Office (MBIE)** – maintains the registers for incorporated societies, charitable trust boards and companies.
- **Inland Revenue** – determines eligibility for charitable tax exemptions and donee status.

Because public sector (PS) and NFP (NFP) entities differ in their users, accountability expectations and operating characteristics, our analysis of the standards framework considered each sector separately – to assess whether the frameworks under consideration are fit for the distinct purposes of NFP entities.

Registered Charity tiers - quantity vs spend and assets

NZ$35.0bn
total annual expenditure for registered charities

Tier 1:
only **0.5%** of population;
57.7% of expenses

Tier 4:
67.6% of population;
only **1.7% of expenses**

NZ$111.2bn
total assets held for registered charities

Tier 1:
Only **0.5%** of population;
43.2% of assets

Tier 4:
67.6% of population;
only **3.4% of assets**

Share of registered charities by tier — entities, spend and assets compared



Tier	Total exp threshold	Charities (n, %)	Total expenditure ($, %)	Avg exp / charity	Total assets ($, %)	Avg assets / charity
Tier 1	> $33m	140 (0.5%)	$20.20bn (57.7%)	$144.3m	$48.04bn (43.2%)	$343.1m
Tier 2	$5m – $33m	650 (2.5%)	$7.95bn (22.7%)	$12.3m	$27.85bn (25.0%)	$42.8m
Tier 3	$140k – $5m	7,794 (29.4%)	$6.25bn (17.9%)	$802k	$31.46bn (28.3%)	$4.0m
Tier 4	< $140k	17,907 (67.6%)	$0.59bn (1.7%)	$33.1k	$3.83bn (3.4%)	$214k
Total	**All tiers**	**26,491 (100%)**	**$34.99bn (100%)**		**$111.19bn (100%)**	

Source: Charities Register August 2026. Tiers defined by Total Expenditure thresholds applied to 26,491 charities. We note that the aggregate data may be overstated because some charities are included both individually and as part of a group. Nevertheless, the data still demonstrates the economic significance of the NFP sector, particularly as it captures only registered charities and excludes other NFPs, such as non-charitable incorporated societies and certain Māori organ[illegible]ons.

User focus – Tier 1 and Tier 2 NFP entities



Primary users

- Currently includes a very broad primary user base:
  - Resource providers (such as donors, government and other funders, members and lenders) and their representatives; and
  - Service recipients (such as beneficiaries and the communities served) and their representatives.

Other users

- Financial statements are not primarily directed at these parties currently (not exhaustive):
  - Sector researchers, analysts and statisticians
  - Media, public interest and advocacy groups
  - Regulatory and oversight bodies (e.g. Charities Services)
  - Umbrella and membership bodies etc.



Nature of primary user needs

- Support assessments of the discharge of accountability and support decision making, such as:
  - Assess performance of the entity and future funding needs (delivering mission and services, stewardship of donations and grants, compliance with donor and funding conditions)
  - Assess liquidity and solvency
  - Assess sustainability of service delivery and other operations over the long term
  - Assess capacity of the entity to adapt to changing circumstances



Implications for Tier 1 and 2 reporting

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

Tier 1 and Tier 2 NFP sector key challenges

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

Key Challenges

1. Complexity of requirements

- Technically complex and resource-intensive to apply.
- Transitioning from non-GAAP reporting to full PBE Standards recognition and measurement is challenging.
- Certain requirements require significant judgement, specialist expertise, and supporting systems.
- Complexity drive challenges in both application and understanding.

2. Workforce capability

- Limited IPSAS and PBE Standards expertise within the wider NFP sector
- Smaller NFP entities often rely on part-time finance staff, volunteers, or external advisers to meet reporting obligations.

3. Limited NFP-specific coverage

- IPSAS do not always address NFP-specific transactions and circumstances
- Additional guidance or disclosures are often needed to explain NFP-specific activities.

4. 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.

5. Accountability and user needs

- Funders, donors, members, beneficiaries and regulators are often interested in service performance, outcomes achieved and stewardship of resources.
- Financial reporting requirements may not always align with the information needs of key NFP stakeholders.

6. Mixed group reporting

- NFP groups can comprise entities operating under different reporting frameworks
- Applying consistent accounting policies and reporting practices across a diverse group structure can require significant resources, judgement and coordination across related entities.

Tier 1 NFP options analysis

Tier 1 NFP entities

Tier 1 NFP entity characteristics

- Tier 1 NFP entities are economically significant and publicly accountable organisations that control substantial resources and play a critical role in delivering social, cultural, health, education and community services. Their activities give rise to accountability to a wide range of stakeholders, including donors, funders (both public and private), beneficiaries, members and regulators, and often involve the stewardship of restricted funds and resources held on trust for public benefit purposes.

Given their scale, complexity and reliance on public confidence, there is a strong expectation that Tier 1 NFP entities provide high-quality, transparent and decision-useful financial and service performance reporting. Such reporting should support:

- accountability to funders and users,
- informed governance and resource allocation decisions,
- trust in the NFP sector, and
- comparability to other large NFP entities.

The table below sets out the quantity of entities that are classified as Tier 1 NFP entities per the ASF requirements.

A NFP entity that has *public accountability**	**Or**	**A *large PBE**** **with total expenses > $33mil**
• Based on information provided by Charities Services, there are approximately 112 organisations and 40 groups Tier 1 NFP entities that are registered charities. ~0.4% of the total population# • Based on information held by MBIE, there are approximately 18 incorporated societies that, based on their operating expenses, may be required to report as a Tier 1 NFP entity. @		

*These are defined terms. Refer to XRB A1 which sets out the requirements relating to *public accountability*. The Definition of public accountability paper explains the public accountability concept in more detail

The 'NFPs – registered charities' information was obtained from Charities.govt.nz in August 2026. The data includes controlled charities, meaning some organisations may be counted twice: once as an individual charity and again as part of a group.

@ The incorporated society information was obtained from MBIE in June 2023. We assume that all of Tier 1 incorporate societies reregistered and continue to exist.

Tier 1 NFP framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

1. Staff prepared the options analysis of the alternative frameworks that was considered viable to this tier.
2. Each viable option is evaluated by considering its pros and cons and assessing it against a set of key criteria.
3. The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
This means:	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) – focused on benefits	Simplification options (addressing preparers concern about complexity)	Internationally aligned Internationally recognised and comparable- including Australia	Locally relevant and international influence	Ecosystem and workforce as a whole (the market)	Cost of change (transition costs for preparer and ecosystem)	Ongoing costs and maintain the standards (i.e. how often are changes expected), including AI-related costs (preparer focus)

Tier 1 NFP options explored

PBE Standards based on IPSAS - New Zealand's Tier 1 NFP standards are based on IPSAS, which were developed primarily for public sector entities and public-sector accountability objectives. PBE Standards adapt IPSAS for the New Zealand environment, including NFP-specific transactions and reporting requirements. While IPSAS are used widely by public sector entities internationally, IPSAS-based reporting is less commonly used by NFP entities.

A: PBE Standards based on IPSAS

B: INPAS

C: IFRS

D: Australian-adapted IFRS framework (NFP)

E: Locally modified standards

INPAS - International Non-Profit Accounting Standard (INPAS) is an accounting framework developed specifically for NFP entities and is based on IFRS for SMEs. The standard is approximately 300 pages in length, including implementation guidance, and was published in October 2025. INPAS is now being promoted internationally for adoption and implementation. Adoption remains at an early stage, with a number of jurisdictions actively exploring its use. INPAS was developed specifically to address the reporting needs, transactions and accountability arrangements of NFP entities. See also INPAS Factsheet.

IFRS - IFRS are accounting standards developed primarily for for-profit entities and capital market participants. IFRS are widely used internationally and form the basis of financial reporting in many jurisdictions. While some jurisdictions require or permit NFP entities to apply IFRS or IFRS-based adapted frameworks, IFRS was not developed specifically for NFP transactions, accountability arrangements or reporting objectives.

Australian-adapted IFRS framework (NFP) - Australian Accounting Standards are based on IFRS but include public sector and NFP adaptations, including additional standards tailored to the NFP and Australia-specific requirements.

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

Tier 1 NFP entities – summary assessment across key criteria

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

Tier 1 NFP Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs
A. PBE Standards based on IPSAS	🟡	🟡	🟡	🟡	🟢	🟢	🟡
B. INPAS	🟡	🟢	🟡	🔴	🔴	🔴	🟡
C. IFRS	🔴	🔴	🟡	🔴	🟡	🔴	🟡
D. Australian-adapted IFRS framework (NFP)	🟡	🔴	🟡	🟡	🟡	🔴	🟡
E. Locally modified standards	🟡	🟢	🔴	🟢	🔴	🔴	🔴

🟢 Strong fit / low concern
🟡 Mixed fit / trade-off concerns
🔴 Significant trade-off concerns

Tier 1 NFP Option	Include in DP	Key drivers of the assessment		
A. PBE Standards based on IPSAS	Include	1. Public sector focused framework	2. Ability to make changes to ensure it is fit-for-purpose	3. Internationally credible
B. INPAS	Include	1. Developed for the NFP sector	2. IFRS for SME foundation may not suit Tier 1 NFPs	3. Limited evidence of practical application
C. IFRS	Include	1. Designed for for-profit entities	2. Closer alignment with Aus	3. Licence agreements limits simplification
D. Australian-adapted IFRS framework (NFP)	Include	1. Aligned with Aus	2. IFRS-based standards with Aus NFP adaptations	3. Licence agreements limits simplification
E. Locally modified standards	Include	1. Simplification possible and will be locally relevant	2. High transition and maintenance costs	3. Loss of international credibility ... t aligned with Aus

Option A – PBE Standards based on IPSAS



Pros

- Designed for organisations where the focus is on service delivery, not profit - which aligns well with the NFP sector.
- Strong emphasis on accountability and stewardship of resources
- Caters for complex transactions
- Tailoring allowed to make it fit-for-purpose in NZ
- Ability to provide NZ views and influence
- Credibility and stakeholder confidence
- Principle based framework
- Bespoke NZ developed guidance and support
- Established domestic workforce capability and some global talent pool
- Globally informed standard-setting process
- No transition costs and market disruptions - established accounting systems.



Cons

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

Option A – PBE Standards based on IPSAS

Criteria	Analysis
Technical fitness	IPSAS standards reflects NFP concepts (like service delivery, grants, donations etc.) better than a for-profit framework. Fulsome framework with IPSAS-based standards providing clear principles for accounting of most complex NFP transactions. However, it is designed and written for Public Sector entities and therefore requires effort to modify it to provide a better fit for the NFP sector. NFPs may have less mature reporting environment and different accountability focuses which are not reflected in the public sector orientated standards. Requirements may impose a level of complexity that is disproportionate for some NFP entities. IPSASB standard-setting generally lags IFRS, as projects are initiated after IASB standards are issued.
Simplification	Ability to simplify to make it fit-for-purpose to New Zealand NFP environment, although some complexity would remain given the underlying framework is extensive and technical. Optional adoption based on New Zealand PBE Policy Approach assessment.
International alignment	Internationally recognised framework fully or partially adopted across 86 jurisdictions. Australia: not aligned. There are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically.
Local relevance	XRB can tailor IPSAS Standards to make it fit-for-purpose in the New Zealand context. However, any adaptation needs to consider maintaining coherence and quality of financial reporting. New Zealand IPSASB Board member supported by XRB staff to influence standard setting. XRB also influence through consultation and global forums.
Ecosystem	Established PBE Standards-based ecosystem supported by preparers, auditors and public-sector institutions. Ongoing training through accounting firms, regulators and educational institutions supports capability within the reporting environment.
Transition costs	No change required, so no additional costs would arise. Existing systems, processes and workforce capability already support the current PBE Standards-based reporting environment in the public sector.
Ongoing costs	As public sector transactions evolve globally, IPSAS accounting standards also evolve which may result in periodic updates to the standards suite to be applied by NFP entities.

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

Option B – INPAS



Pros

- Designed specifically for NFPs - may not require significant domestic modification
- Balanced complexity and simplicity in requirements (assumed due to the basis being IFRS for SMEs)
- Globally informed standard setting process
- Ability to influence will be a possibility but pathway still needs to be established
- Stand-alone, self contained principle based standard
- May have lower ongoing change



Cons

- Starting point of development of INPAS was IFRS for SMEs - which is a for-profit framework.
- Not designed for large multi-national charities
- Limited professional familiarity with these Standards in NZ
- Mixed tier group consolidation complexity
- Different recognition and measurement requirements to current PBE Standards
- Significant transition cost and system changes
- Workforce capability limited in NZ
- Limited workforce mobility in NZ as well as internationally
- ASF complexity and fragmentation
- No exposure, training and configured IT systems in the NZ ecosystem
- New suite of standards that haven't been tried and tested - credibility and robustness not known

Option B – INPAS

Criteria	Analysis
Technical fitness	Standards are Intended to be explicitly tailored for NFPs including language and economic reality of the NFP sector and result in reporting principles which are relevant for the accountability of NFPs and their users. Conceptually appropriate for typical and specific NFP transactions. IFRS for SMEs was a starting point, but they have also drawn on IPSAS, and modified further to address NFP transactions. Developed for small and medium-sized entitles and may not be suitable for complex transactions.
Simplification	Simplified recognition and measurement requirements. Standard may need to be tailored and changed to make it locally relevant to the NZ NFP environment and consider proportionality for Tier 2 NFP entities. Uncertainty of Licence (assuming Licence restrictions will allow modifications).
International alignment	Standard developed by a voluntary task force with support from some international bodies but not used in practice yet. A few jurisdictions are considering or working on implementation (e.g. Kenya) Australia: Not aligned but considered in their development of the new Tier 3 NFP standard. There are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically
Local relevance	Standards may need to be tailored and changed to make them locally relevant to the NZ NFP environment. It is unclear whether the XRB would be able to effectively and credibly influence the standards internationally and how the standards would be maintained and updated.
Ecosystem	New reporting framework which will result in challenges with workforce capacity and composition as the market (preparers, auditors and technology) will need to understand and familiarise themselves with another set of principles which are not used in New Zealand. This will result in more fragmentation across the Tiers and sectors as these will not be aligned with other reporting principles.
Transition costs	There would be a significant cost for entitles to transition to these standards. Existing software and systems do not support reporting aligned with these standards and would require further understanding, development and implementation, which may result in additional costs for preparers and users.
Ongoing costs	It is unclear how the standards would be maintained and updated. With transactions evolving globally, and revisions to the IFRS for SME's every 3-5 years there will be a level of changes, but updates to INPAS are expected to be less frequent than changes to IFRS and IPSAS standards.

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

Option C – IFRS



Pros

- High-quality, principles-based framework - caters for complex transactions
- Sector neutral and benefits of work force capacity
- Extensive guidance, training and support provided by IASB.
- Harmonisation with Australia
- Ability to provide NZ views and influence
- Credibility and stakeholder confidence
- High quality principle based framework
- Established domestic workforce, capability and talent pool
- Globally informed standard setting process
- Access to IFRS-ready accounting systems



Cons

- Not fit-for-purpose for the NFP sector as designed with capital markets in mind
- Not tailored to NZ circumstances or NFP concepts without significant judgements, supplements required and workarounds (customisation risks).
- Licence restrictions within IFRS - strict rules when modifications can be made and mandatory full suite adoption.
- Technical and complex
- Change would impose significant transition cost and severe organisational disruption
- No guidance and support focused on NFPs and limited ability to create content locally

Option C – 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. However, it is designed and written for for-profit entities, and therefore requires effort to supplement or work around to provide a better fit for the NFP sector. Some NFPs may have less mature reporting environment and different accountability focuses which are not reflected in the for-profit orientated standards.
Simplification	Simplification option limited: under existing IFRS Licence agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned. Significant supplements and work-arounds would be required.
International alignment	IFRS is internationally recognised - used in 161 jurisdictions (required or permitted for publicly accountable entities) and therefore would improve comparability with private-sector reporting on a global scale. May be closer alignment with Australia's approach which is IFRS aligned. This is a well established framework recognised internationally for financial reporting. However, there are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. However, IFRS is not designed with the NFP in mind and therefore may require supplements and work-arounds to make it NFP appropriate.
Ecosystem	IFRS adoption would significantly disrupt the current ecosystem and would requiring major system changes (technology) to comply with IFRS requirements. However, New Zealand has an established IFRS-based ecosystem supported by preparers and auditors in the for-profit space. Training would be required which can occur through accounting firms, regulators and educational institutions who has the capability.
Transition costs	Significant cost and changes will be required. Existing software and systems would need to undergo changes, although IFRS systems may be more readily available given its prominence in New Zealand for the for-profit sectors.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes however these do so without keeping NFP transactions in mind.

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

Option D – Australian-adapted IFRS framework (NFP)



Pros

- High-quality, principles-based framework
- Ability to provide NZ views and influence for not-for-profit modifications
- Greater responsiveness to local issues
- Alignment with Australia



Cons

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

Option D - Australian-adapted IFRS framework (NFP)

Criteria	Analysis
Technical fitness	Fulsome framework with several IFRS-based standards providing clear principles for accounting of most complex transactions. However, not-for-profit modifications are required to provide a better fit for the NFP sector. Those modification are not developed with New Zealand specific not-for-profit financial reporting and accountability requirements in mind. IFRS-based recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	Any simplifications would be restricted to those already incorporated within Australian Accounting Standards such as reduced disclosure requirements for the Tier 2 entities.
International alignment	Australian standards are based in international recognised framework (IFRS). However, the NFP modifications are not recognised internationally and would unlikely be used outside Australia and New Zealand, reducing comparability with other NFP frameworks.
Local relevance	Standards are tailored to o Australian not-for-profit entities and their reporting environment. Although many features are comparable to New Zealand, the frameworks are not designed specifically for New Zealand circumstances.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be initially reduced as the current talent pipeline is largely aligned with IPSAS-based standards. Over time, closer alignment with the for-profit framework may improve workforce mobility by making it easier for talent to work across sectors and on both sides of the Tasman.
Transition costs	Significant costs and system changes would be required. Although IFRS-based software is widely available due to its use in New Zealand's for-profit sector, modifications would be needed to support not-for-profit reporting requirements.
Ongoing costs	IFRS standards evolve regularly as global transactions change. NFP supplements also need ongoing maintenance which may increase the complexity of keeping the framework coherent and aligned with international developments. XRB could potentially work with Australia to maintain up-to-date supplements for the NFP requirements.

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

Option E – Locally modified standards



Pros

- Designed specifically for NFPs and tailored to NZ circumstances
- Full control over standard-setting
- Greater responsiveness to local issues
- Alignment with NZ regulatory and policy settings



Cons

- 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
- Absence of readily available IT software
- High development and maintenance costs
- Workforce capability and mobility risk
- Requires extensive expertise and time to produce
- Greater risk of inconsistency and loss of credibility

Option E – Locally modified standards

Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards capable of dealing with most complex NFP transactions and accountability relationships without unintended consequences. This could result in reporting principles which are relevant for the accountability of NFPs but this may not meet the needs of international stakeholders or other global users.
Simplification	Standards could be developed to be highly relevant to NFP reporting in New Zealand and can be simplified in terms of recognition, measurement and disclosures to best support users needs around NFP financial information. Elements of other international NFP frameworks can be leveraged from.
International alignment	Would not be recognised internationally and unlikely to be used outside New Zealand. However, there are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically. Australia: Not aligned
Local relevance	Standards could be tailored to New Zealand NFP policy settings and reporting needs.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be reduced as the current talent pipeline is largely aligned with IPSAS-based standards.
Transition costs	Significant transition costs would arise, including policy redesign, workforce retraining and changes to systems and processes. Existing software and accounting systems are not designed for bespoke New Zealand standards.
Ongoing costs	Changes to locally modified standards could be managed domestically, but there is a risk that emerging global developments or complex issues are not addressed in a timely way due to limited local resources.

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

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EXTERNAL REPORTING BOARD

Have your say

We welcome your feedback as we develop our thinking on the future of New Zealand's Accounting Standards Framework.

Let us know if our analysis is complete or whether there are additional challenges, opportunities, or perspectives we should consider.

Your input will help inform the development of the Discussion Paper.

Scan the QR code

Provide feedback on this topic and help inform the development of the Discussion Paper.

Appendix 7 – Tier 2 not-for-profit entities: framework options analysis

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

Tier 2 NFP options analysis

Tier 2 NFP entities

Tier 2 NFP entity characteristics

- Tier 2 NFP entities are publicly accountable organisations that play an important role in delivering social, cultural, health, education and community services, but operate at a smaller scale and may have lower complexity than Tier 1 NFP entities.

- Tier 2 NFP entities remain accountable to a range of stakeholders, including funders, donors, members, beneficiaries and regulators. Credible and consistent financial reporting is therefore important to support accountability, governance and stewardship decisions. However, given the size, scale and capability constraints of many Tier 2 NFP entities, reporting requirements should appropriately balance decision-usefulness with cost-benefit considerations and reporting capacity.

The table below sets out the approximate quantity of entities that are classified as Tier 2 NFP entities under the Accounting Standards Framework requirements.

A NFP entity that has no public accountability*	**Or**	**Has total expenses ≤ $33 million (not 'large' as per XRB A1) but total expenses > $5 million&**
• Based on information provided by Charities Services, there are approximately 633 organisations and 97 groups Tier 2 NFP entities that are registered charities. ~2.3% of the total population#		
• Based on information held by MBIE, there are approximately 263 incorporated societies that, based on their operating expenses, may be required to report as a Tier 2 NFP entity. @		

*These are defined terms. Refer to XRB A1 which sets out the requirements relating to *public accountability*. The Definition of public accountability paper explains the public accountability concept in more detail.
& This paper focuses on mandated Tier 2 NFP entities and does not consider entities that voluntarily opt to apply Tier 2 reporting requirements.
# The 'NFPs – registered charities' information was obtained from Charities.govt.nz in August 2026. The data includes controlled charities, meaning some organisations may be counted twice: once as an individual charity and again as part of a group.
@ The incorporated society information was obtained from MBIE in June 2023. We assume that all of Tier 2 incorporate societies reregistered and continue to exist.

Tier 2 NFP sector framework option analysis criteria

Each alternative framework was assessed against several key criteria.

Process followed

1. Staff prepared the options analysis of the alternative frameworks that were considered viable to this tier.
2. Each viable option is evaluated by considering its benefits and trade-offs and assessing it against a set of key criteria.
3. The internal XRB additional cost and capacity to create new standards and lead time to create a coherent suite, is not captured as a separate criteria, but is a key item to consider internally.

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	Local relevance	International alignment	Ongoing costs	Move between tiers	Ecosystem	Transition costs
This means:	Technical fitness; a coherent suite capable of *faithfully representing not-for-profit transactions and accountability relationships*, developed with user needs in mind (preparers and user focus) – focused on benefits	Recognition, measurement and disclosure simplification options (addressing preparer complexity while maintaining decision useful information)	Ability to reflect NZ economic and user needs, including through local modifications and international standard-setting influence (*importance may vary across tiers and entity types*) – *focused on benefits*	Internationally aligned, recognised and comparable - including Australia (*importance may vary across tiers and entity types*) – *focused on benefits*	Ongoing costs of applying and maintaining the standards, including AI-related costs (i.e. how often are changes expected) (preparer focus)	Interoperability with Tier 1 (accounting requirements and workforce capability) ☆	Availability of skills, guidance, systems, audit capability and training to support implementation and ongoing application	Cost of change (transition costs for preparer, auditors, regulators and wider ecosystem)

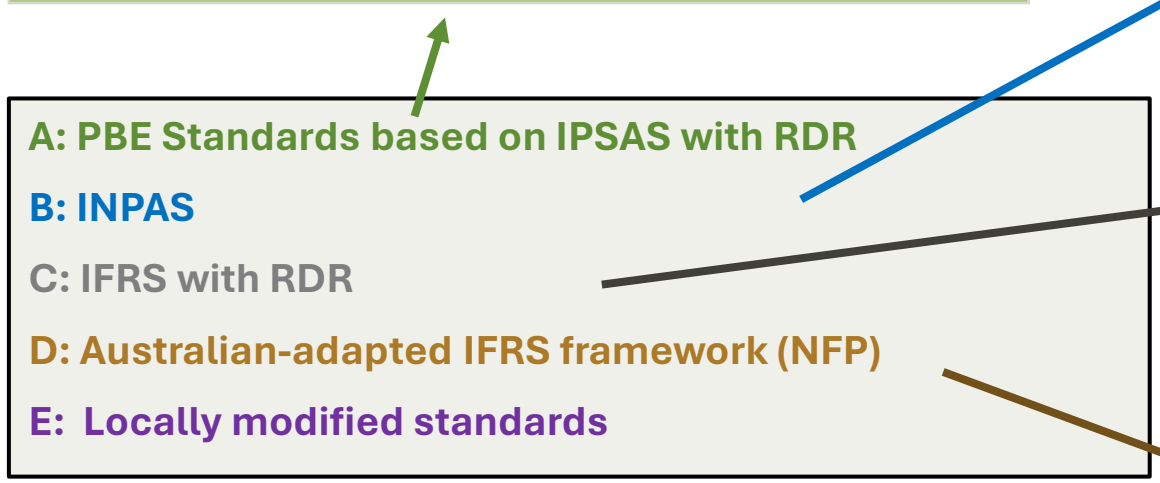
☆ Tier 2 NFP key criteria are consistent to that of Tier 1 except for the addition of: → **Move between tiers -** Interoperability with Tier 1 (accounting and workforce)

Tier 2 NFP framework options explored

The Tier 2 NFP viable options explored build on the options included for Tier 1 NFP entities.

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

INPAS – framework developed specifically for NFP entities with an IFRS for SMEs foundation which may make it more appropriate and applicable to Tier 2 NFP entities. Adoption remains at an early stage, with a number of jurisdictions actively exploring its use. Refer to INPAS Factsheet.



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

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

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

Tier 2 NFP entities – summary assessment across key criteria

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

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

🟢 Strong fit / low concern

🟡 Mixed fit / trade-off concerns

🔴 Significant trade-off concerns

Tier 2 NFP Option	Include in DP?	Key drivers of the assessment		
A. PBE Standards based on IPSAS with RDR	Include	1. Public sector focused framework	2. Ability to make changes to ensure it is fit-for-purpose	3. Internationally credible
B. INPAS	Include	1. Developed for the NFP sector	2. IFRS for SME foundation consider proportionality for Tier 2 NFP entities	3. Limited evidence of practical application
C. IFRS RDR	Include	1. Designed for for-profit entities	2. Closer alignment with Aus	3. Licence agreements limits simplification
D. Australia aligned NFP standards with RDR	Include	1. Aligned with Aus	2. IFRS-based standards with Aus NFP adaptations	3. Licence agreements limits simplification
E. Locally modified standards	Include	1. Simplification possible and will be locally relevant	2. High transition and maintenance costs	3. Loss of international credibility. Not aligned with Aus

Option A – PBE Standards based on IPSAS with RDR



Pros

- Designed for organisations where the focus is on service delivery, not profit - which aligns well with the NFP sector
- Strong emphasis on accountability and stewardship of resources
- Caters for complex transactions
- Tailoring allowed to make it fit-for-purpose in NZ
- Ability to provide NZ views and influence
- NZASB's ability and control to consider proportionality through reduced disclosure burden
- Credibility and stakeholder confidence
- Principle based framework
- Bespoke NZ developed guidance and support
- Established domestic workforce capability and some global talent pool
- Globally informed standard-setting process
- No transition costs and market disruptions - established accounting systems



Cons

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

Option A – PBE Standards based on IPSAS with RDR

Criteria	Analysis
Technical fitness	IPSAS standards reflects NFP concepts (like service delivery, grants, donations etc) better than a for-profit framework. Fulsome framework with IPSAS-based standards providing clear principles for accounting of most complex NFP transactions. However, it is designed and written for Public Sector entities, and therefore requires effort to modify it to provide a better fit for the NFP sector. NFPs may have less mature reporting environment and different accountability focuses which are not reflected in the public sector orientated standards. Requirements may impose a level of complexity that is disproportionate for some NFP entities. IPSASB standard-setting generally lags IFRS, as projects are initiated after IASB standards are issued.
Simplification	XRB can simplify IPSAS Standards to make it fit-for-purpose to New Zealand NFP environment. However, any adaptations needs to consider maintaining coherence and quality of financial reporting. XRB also has the ability to reduce disclosures to simplify requirements for Tier 2 NFPs however measurement and recognition requirements remains the same as for Tier 1NFP.
International alignment	Internationally recognised framework fully or partially adopted across 86 jurisdictions. Australia: not aligned. There are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically.
Local relevance	XRB can tailor IPSAS Standards to make it fit-for-purpose in the New Zealand context. However, any adaptation needs to consider maintaining coherence and quality of financial reporting. New Zealand IPSASB Board member supported by XRB staff to influence standard setting. XRB also influence through consultation and global forums.
Ecosystem	Established PBE Standards-based ecosystem supported by preparers, auditors and public-sector institutions. Ongoing training through accounting firms, regulators and educational institutions supports capability within the reporting environment.
Transition costs	No change required, so no additional costs would arise. Existing systems, processes and workforce capability already support the current PBE Standards-based reporting environment in the public sector.
Ongoing costs	As public sector transactions evolve globally, IPSAS accounting standards also evolve which may result in periodic updates to the standards suite to be applied by NFP entities.
Move between tiers	Strong interoperability due to consistency in recognition and measurement principles. Retaining PBE Standards RDR supports workforce interoperability as there is a reduced need for separate training and capability streams.

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

Option B – INPAS



Pros

- Designed specifically for NFPs - may not require significant domestic modification
- Balanced complexity and simplicity in requirements (assumed due to the basis being IFRS for SMEs)
- Globally informed standard setting process
- Ability to influence will be a possibility but pathway still needs to be established
- Stand-alone, self contained principle based standard
- May have lower ongoing change
- Proportionality (assuming Licence restrictions will allow this).



Cons

- Starting point of development of INPAS was IFRS for SMEs - which is a for-profit framework.
- Not designed for large multi-national charities
- Limited professional familiarity with these Standards in NZ
- Mixed tier group consolidation complexity
- Different recognition and measurement requirements to current PBE Standards
- Significant transition cost and system changes
- Workforce capability limited in NZ
- Limited workforce mobility in NZ as well as internationally
- ASF complexity and fragmentation
- No exposure, training and configured IT systems in the NZ ecosystem
- New suite of standards that haven't been tried and tested - credibility and robustness not known

Option B – INPAS

Criteria	Analysis
Technical fitness	Standard is intended to be explicitly tailored for NFPs including language and economic reality of the NFP sector and result in reporting principles which are relevant for the accountability of NFPs and their users. Conceptually appropriate for typical and specific NFP transactions. IFRS for SMEs was a starting point, but it has also drawn on IPSAS, and modified further to address NFP transactions.
Simplification	Simplified recognition and measurement requirements. Standard may need to be tailored and changed to make it locally relevant to the NZ NFP environment and consider proportionality for Tier 2 NFP entities. Uncertainty of Licence (assuming Licence restrictions will allow modifications).
International alignment	Standard developed by a voluntary task force with support from some international bodies but not used in practice yet. A few jurisdictions are considering or working on implementation (e.g. Kenya) Australia: Not aligned but considered in their development of the new Tier 3 NFP standard. There are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically.
Local relevance	Standard may need to be tailored and changed to make it locally relevant to the NZ NFP environment. It is unclear whether the XRB would be able to effectively and credibly influence the standards internationally and how the standards would be maintained and updated.
Ecosystem	New reporting framework which will result in challenges with workforce capacity and composition as the market (preparers, auditors and technology) will need to understand and familiarise themselves with another set of principles which are not used in New Zealand. This will result in more fragmentation across the Tiers and sectors as these will not be aligned with other reporting principles.
Transition costs	There would be a significant cost for entitles to transition to these standards. Existing software and systems do not support reporting aligned with these standards and would require further understanding, development and implementation, which may result in additional costs for preparers and users.
Ongoing costs	It is unclear how the standards would be maintained and updated. With transactions evolving globally, and revisions to the IFRS for SME's every 3-5 years there will be a level of changes, but updates to INPAS are expected to be less frequent than changes to IFRS and IPSAS standards.
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles. Does not support workforce interoperability as separate training will be required to operate between the IPSAS-based Tier 1 NFP framework and an INPAS-based Tier 2 framework.

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

Option C – IFRS RDR



Pros

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



Cons

- Not fit-for-purpose for the NFP sector as designed with capital markets in mind
- Licence restrictions within IFRS - strict rules when modifications can be made and mandatory full suite adoption.
- Not tailored to NFP circumstances or NFP transactions and accountability requirements which may require significant supplementation and heavy workarounds (customisation risks).
- Technical and complex
- Change would impose significant transition cost and severe organisational disruption
- No guidance and support focused on NFPs and limited ability to create content locally
- Recognition and measurement requirements may exceed user needs

Option C – IFRS RDR

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. However, it is designed and written for for-profit entities, and therefore requires effort to supplement or work around to provide a better fit for the NFP sector. Some NFPs may have less mature reporting environment and different accountability focuses which are not reflected in the for-profit orientated standards. Recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	Simplification option limited: under existing IFRS Licence agreement there is a mandatory full-suite adoption and recognition and measurement requirements needs to be aligned. Significant supplements and work-arounds would be required. XRB has ability to reduced disclosures to simplify requirements for Tier 2 NFPs.
International alignment	IFRS is internationally recognised - used in 161 jurisdictions (required or permitted for publicly accountable entities) and therefore would improve comparability with for-profit reporting on a global scale. May be closer alignment with Australia's approach which is IFRS aligned. This is a well established framework recognised internationally for financial reporting. However, there are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically.
Local relevance	While the XRB cannot directly tailor international standards, New Zealand credentials and potential to influence is well established internationally which may allow local inputs into the development of the global standards. However, IFRS is not designed with the NFP in mind and therefore may require supplements and work-arounds to make it NFP appropriate.
Ecosystem	IFRS adoption would significantly disrupt the current ecosystem and would requiring major system changes (technology) to comply with IFRS requirements. However, New Zealand has an established IFRS-based ecosystem supported by preparers and auditors in the for-profit space. Training would be required which can occur through accounting firms, regulators and educational institutions who has the capability.
Transition costs	Significant cost and changes will be required. Existing software and systems would need to undergo changes, although IFRS systems may be more readily available given its prominence in New Zealand for the for-profit sectors.
Ongoing costs	With transactions evolving globally, accounting standards evolve which results in regular changes however these do so without keeping NFP transactions in mind.
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles to IPSAS. Does not support workforce interoperability as separate training will be required to operate between the IPSAS-based Tier 1 NFP framework and an IFRS-based Tier 2 framework.

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

Option D – Australian-adapted IFRS framework (NFP)



Pros

- High-quality, principles-based framework
- Ability to provide NZ views and influence for not-for-profit modifications
- Greater responsiveness to local issues
- Alignment with Australia



Cons

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

Option D - Australian-adapted IFRS framework (NFP)

Criteria	Analysis
Technical fitness	Fulsome framework with several IFRS-based standards providing clear principles for accounting of most complex transactions. However, not-for-profit modifications are required to provide a better fit for the NFP sector. Those modification are not developed with New Zealand specific not-for-profit financial reporting and accountability requirements in mind. IFRS-based recognition and measurement requirements may impose a level of complexity that is disproportionate for some Tier 2 entities.
Simplification	Any simplifications would be restricted to those already incorporated within Australian Accounting Standards such as reduced disclosure requirements for the Tier 2 entities.
International alignment	Australian standards are based in international recognised framework (IFRS). However, the NFP modifications are not recognised internationally and would unlikely be used outside Australia and New Zealand, reducing comparability with other NFP frameworks.
Local relevance	Standards are tailored to o Australian not-for-profit entities and their reporting environment. Although many features are comparable to New Zealand, the frameworks are not designed specifically for New Zealand circumstances.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be initially reduced as the current talent pipeline is largely aligned with IPSAS-based standards. Over time, closer alignment with the for-profit framework may improve workforce mobility by making it easier for talent to work across sectors and on both sides of the Tasman.
Transition costs	Significant costs and system changes would be required. Although IFRS-based software is widely available due to its use in New Zealand's for-profit sector, modifications would be needed to support not-for-profit reporting requirements.
Ongoing costs	IFRS standards evolve regularly as global transactions change. NFP supplements also need ongoing maintenance which may increase the complexity of keeping the framework coherent and aligned with international developments. XRB could potentially work with Australia to maintain up-to-date supplements for the NFP requirements.
Move between tiers	Limited interoperability due to inconsistency in some recognition and measurement principles to IPSAS. Does not support workforce interoperability as separate training will be required to operate between the IPSAS-based Tier 1 NFP framework and an Australian IFRS-based Tier 2 framework.

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

Option E – Locally modified standards



Pros

- Designed specifically for NFPs and tailored to NZ circumstances
- Full control over standard-setting
- Greater responsiveness to local issues
- Alignment with NZ regulatory and policy settings



Cons

- 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
- Absence of readily available IT software
- High development and maintenance costs
- Workforce capability and mobility risk
- Requires extensive expertise and time to produce
- Greater risk of inconsistency and loss of credibility

Option E – Locally modified standards

Criteria	Analysis
Technical fitness	Significant time and resource requirement to create a coherent suite of standards capable of dealing with most complex NFP transactions and accountability relationships without unintended consequences. This could result in reporting principles which are relevant for the accountability of NFPs but this may not meet the needs of international stakeholders or other global users.
Simplification	Standards could be developed to be highly relevant to NFP reporting in New Zealand and can be simplified in terms of recognition, measurement and disclosures to best support users needs around NFP financial information. Elements of other international NFP frameworks can be leveraged from.
International alignment	Would not be recognised internationally and unlikely to be used outside New Zealand. However, there are limited benefits around international comparability of NFPs as most NFP source of funding is generated domestically. Australia: Not aligned
Local relevance	Standards could be tailored to New Zealand NFP policy settings and reporting needs.
Ecosystem	Adoption would significantly disrupt the current ecosystem, requiring substantial retraining of preparers, auditors and practitioners and changes to systems and tools. Workforce mobility may be reduced as the current talent pipeline is largely aligned with IPSAS-based standards.
Transition costs	Significant transition costs would arise, including policy redesign, workforce retraining and changes to systems and processes. Existing software and accounting systems are not designed for bespoke New Zealand standards.
Ongoing costs	Changes to locally developed standards could be managed domestically, but there is a risk that emerging global developments or complex issues are not addressed in a timely way due to limited local resources.
Move between tiers	Limited interoperability due to inconsistency in recognition and measurement principles. Does not support workforce interoperability as separate training will be required due to the development of a distinct domestic framework separate from the IPSAS-based Tier 1 public sector framework and / or IFRS framework.

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

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Have your say

We welcome your feedback as we develop our thinking on the future of New Zealand's Accounting Standards Framework.

Let us know if our analysis is complete or whether there are additional challenges, opportunities, or perspectives we should consider.

Your input will help inform the development of the Discussion Paper.

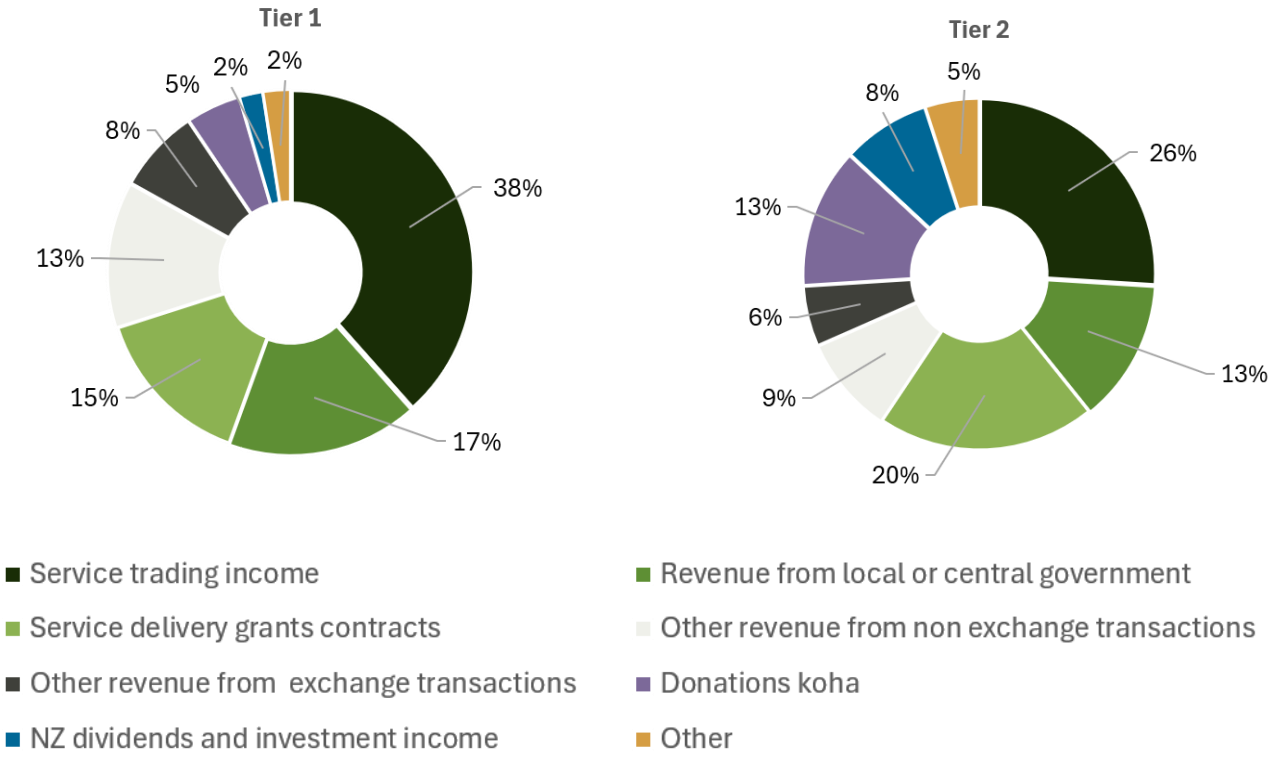
Scan the QR code

Provide feedback on this topic and help inform the development of the Discussion Paper.

Appendix 8 – Financial and operational profile of Tier 1 and Tier 2 registered charities

1. The tables below are based on information obtained from Charities.govt.nz in August 2026 and largely reflect registered charities' 2025 financial data. For the purposes of this analysis, entities and groups were allocated to Tier 1 or Tier 2 based on their most recently reported expenses. This allocation is intended to reflect the tier in which they are required to report under the Accounting Standards Framework, rather than the tier they actually report in, as an entity may elect to report in a higher tier.
2. We analysed the information available but were unable to independently verify the accuracy, completeness or consistency of the underlying data. In particular, we identified that[33]:
   - although we used data described as excluding controlled entities, some group financial information remained alongside information for individual entities within those groups, indicating that not all controlled entities had been excluded;
   - revenue and expense categories were not applied consistently across entities; and
   - some revenue and expense amounts appeared to have been incorrectly classified.
3. These limitations should be considered when interpreting the tables. Nevertheless, we consider that the information provides a useful high-level indication of the nature and composition of the operations of registered charities reporting in Tier 1 and Tier 2.

Breakdown of income



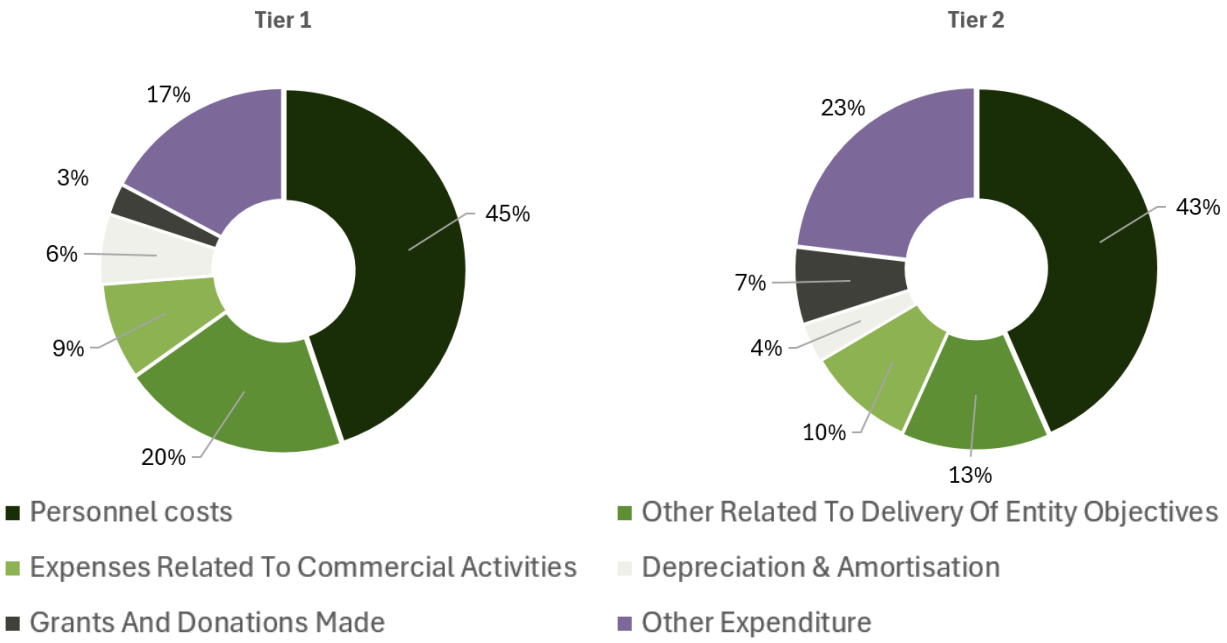
4. Service and trading income was the largest income source for both Tier 1 and Tier 2 registered charities, representing 38% and 26% of total income, respectively. This category included for example patient and medical centre fees, student tuition and boarding fees, aged-care, rest-home and hospital fees, residential college charges, learning programme fees, retail-store income, and sales of goods and

[33] To supplement the Charities Register data and gain a better understanding of certain financial statement items, we reviewed the financial statements of the 20 registered charities with the highest reported expenses in each of Tier 1 and Tier 2 (i.e. 40 financial statements).

services, including agricultural products and tourism services. However, we noted that some entities also reported government grants within this category.

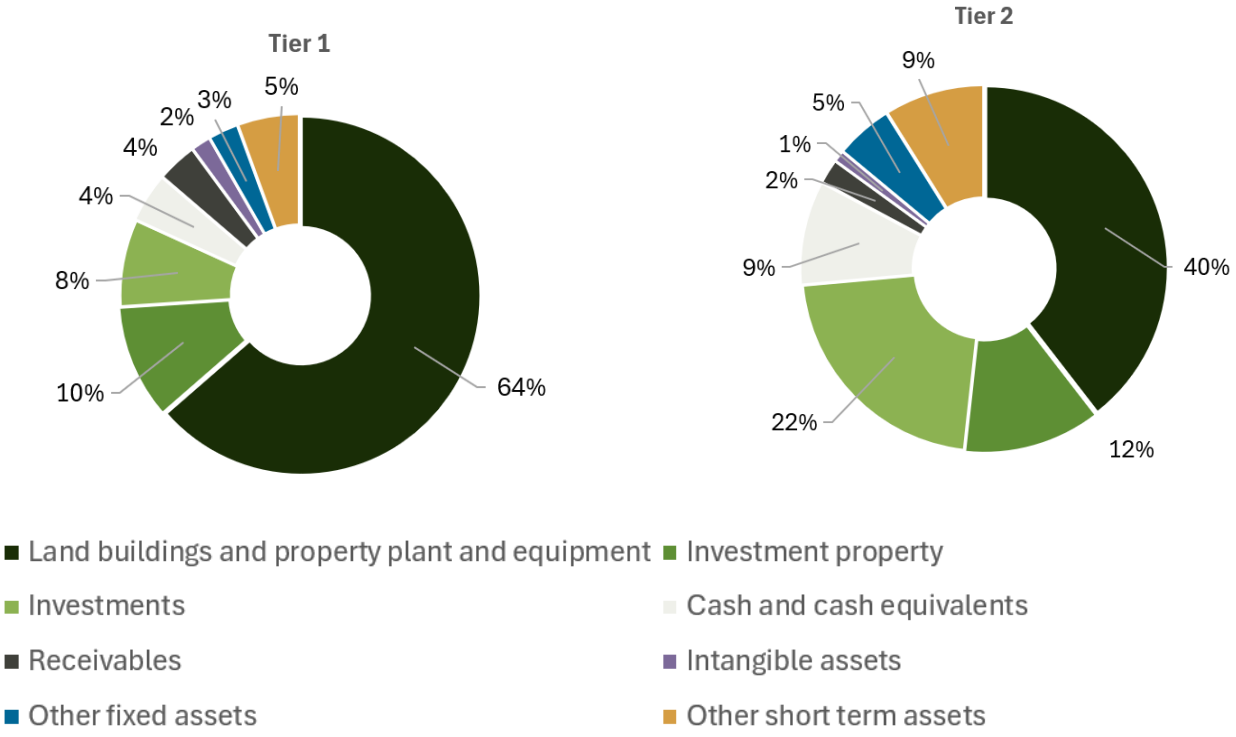
5. Other significant income sources were grants from local or central government, representing 17% of Tier 1 and 13% of Tier 2 income, and service delivery grants and contracts, representing 15% and 20%, respectively. Grants from local or central government were reported by 38.6% of Tier 1 and 30.2% of Tier 2 registered charities, while service delivery grants and contracts were reported with a similar frequency.
6. Donations were more prominent for Tier 2 registered charities, representing 13% of total income, compared with 5% for Tier 1 registered charities. However, donations were reported with a similar frequency across the two tiers, by 60.0% of Tier 1 and 56.5% of Tier 2 registered charities.

Breakdown of expenses



7. Personnel costs were the largest expense for both Tier 1 and Tier 2 registered charities, representing 45% and 43% of total expenses, respectively. These costs included salaries, wages, and other employee remuneration and related expenses. Volunteer-related expenses were not included in personnel costs and are included in other expenses.
8. Other expenses related to delivering the entity's objectives were the second-largest category, representing 20% of Tier 1 and 13% of Tier 2 expenses. This category included consumables, such as medical supplies; contracted and professional services; information technology; transport, travel and accommodation; administration; equipment maintenance; contracted teaching; leases; or air ambulance hire. For Tier 2 entities within the sample reviewed, this category commonly included cost of rental and leases and administration expenses.

Breakdown of assets



9. Land, buildings, and property, plant and equipment were the largest asset category for both Tier 1 and Tier 2 registered charities, representing 64% and 40% of total assets, respectively. As many charities did not report land and buildings separately from other property, plant and equipment, we were unable to determine the proportion attributable to each asset type.
10. Investment property was the second-largest asset category, representing 10% of Tier 1 and 12% of Tier 2 assets, although it was reported by only 22.9% of Tier 1 and 16.0% of Tier 2 registered charities.
11. Investments represented 8% of Tier 1 assets and 22% of Tier 2 assets. Based on our review of the 20 registered charities with the highest reported expenses in each tier, investments in controlled entities and equity-accounted investments represented approximately 49% of the investments held by the Tier 1 entities reviewed and 27% of those held by the Tier 2 entities reviewed. The remainder comprised mainly financial instruments measured at fair value through other comprehensive revenue and expense or through surplus or deficit.

Breakdown of liabilities

12. The Charities Register provides limited insight into the composition of liabilities, as the available information distinguishes only between current and non-current liabilities. We were therefore unable to analyse the specific types of liabilities held by Tier 1 and Tier 2 registered charities.

Appendix 9 – National financial reporting standards and guidance for NFPs

1. This appendix provides illustrative examples of how selected jurisdictions develop and maintain financial reporting standards and guidance for NFPs. It demonstrates that there is no single international approach to NFP reporting. Jurisdictions use a range of models, including IFRS-based frameworks with NFP modifications, dedicated national NFP standards, public sector standards, and emerging NFP-specific frameworks such as INPAS.
2. The information has been compiled from a range of publicly available sources (see the list below). For some jurisdictions, information was limited, not available in English, or difficult to verify using official sources. Accordingly, the information should be regarded as indicative rather than authoritative.
3. Despite these limitations, the examples illustrate that jurisdictions have adopted a variety of approaches to NFP reporting, reflecting their own legal, regulatory, funding and operating environments. The examples suggest that jurisdictions have adopted a wide range of approaches to NFP reporting and do not indicate a single dominant international model. New Zealand is unusual in integrating NFP and public-sector entities within a common PBE architecture.

Country	Approach	Reporting standard(s) or guidance
Australia	**NFP** - IFRS Standards modified for NFPs **Public sector** - National standards based on IFRS Standards[1]	Besides applying the general requirements of Australian Accounting Standards (AASB Standards), not-for-profit entities are subject to additional not-for-profit-specific requirements and guidance.[2] AASB Standards are based on IFRS Accounting Standards but include Australian-specific requirements for transactions commonly encountered by not-for-profit entities, such as grants, donations, volunteer services and concessionary leases. Government-controlled not-for-profit entities apply the same suite of AASB Standards, supplemented by additional public-sector requirements.[3] Whole-of-government financial statements are also subject to AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.
United Kingdom	**NFP** - National standards **Public sector** - National standards based on IFRS Standards[1]	Besides applying the general requirements of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, charities are generally required to apply the Charities Statement of Recommended Practices (SORPs) 2026.[2] The SORP provides additional charity-specific requirements and guidance on matters such as fund accounting, the Statement of Financial Activities and trustees' reporting. Government-controlled not-for-profit entities generally apply public sector financial reporting requirements based on IFRS Standards, as adapted and supplemented through the Government Financial Reporting Manual (FReM).[4]
Canada	**NFP** - Choice between National standards and IFRS Standards (if appropriate) **Public sector** - National standards[1]	Private not-for-profit organisations can choose to apply either (a) the IFRS (in Part 1 of the CPA Canada Accounting Handbook), or (b) accounting standards for NFPOs (ASNOP) (in Part III of the Handbook). ASNPO includes not-for-profit-specific requirements and guidance, supplementing the general accounting requirements in Part II of the Handbook, on matters such as contributions, fund accounting, collections, and reporting controlled and related entities.[2] In addition, Canada recognises the existence of government controlled not-for profit enterprises. These entities fall in under the scope for Public Sector

[1] 2024 International Public Sector Financial Accountability Index | IFAC provides information about public sector financial accountability.
[2] Supplementary information to the 2021 Consultation paper - International Financial Reporting for Non-Profit Organisations (see pages 212 - 243). This document provides also detail comparison of IPSAS and IFRS with New Zealand, United States, Canada and United Kingdom reporting frameworks for NFPs.
[3] International Federation of Accountants (IFAC), *Australia – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies Australia's accrual-based national standards framework developed by AASB.
[4] International Federation of Accountants (IFAC), *United Kingdom – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies UK's accrual-based national standards framework developed by the His Majesty's Treasury.

		Accounting Standards (PSAS) set by the Public Sector Accounting Board (PSAB) and apply standards applicable to the public sector. [2,5]
United States	**NFP** - National standards (US GAAP) modified for NFPs **Public sector** - National standards[1]	Besides applying all relevant general guidance within the US GAAP, not-for-profit entities have extensive incremental guidance within Topic 958, on non-exchange transactions, financial statement presentation, and various other not-for-profit-specific matters. There is no separate, simplified set of standards in GAAP that is equivalent to the IFRS for SMEs Standard; rather, the US GAAP contains various simplified accounting alternatives and many disclosure exemptions for business enterprises without public equity or debt. In most cases, these also apply to some or all not-for-profit entities. [2] Government-controlled not-for-profit entities (such as public universities and governmental hospitals) follow GAAP issued by the Governmental Accounting Standards Board (GASB), for state and local governments, or the Federal Accounting Standards Advisory Board (FASAB), for the Federal Government. [2]
India	**NFP** - National accounting requirements and non-mandatory NPO-specific technical guidance; application differs by legal form and governing legislation. **Public sector** - National government accounting requirements. [1]	Trusts, societies, section 8 companies and other NPOs are subject to different legal and regulatory requirements. The **ICAI** Technical Guide on Accounting for Not-for-Profit Organisations provides NPO-specific guidance, but the source material describes it as non-mandatory. General Indian GAAP and sector or legal-form requirements may therefore remain relevant. [6] Central government reporting has historically been cash based [7], with work towards accrual accounting, rather than using the private NFP framework.
China	**NFP** - Separate national rules for civil/non-governmental NFP organisations. **Public sector** - National government accounting standards. [1]	Private NFP reporting is principally addressed through China's national accounting framework for civil non-profit organisations rather than through IFRS-based business standards. The framework applies according to the entity's legal form, registration and regulatory oversight.[8] Government-controlled entities fall within the separate national government accounting system, which the source file describes as IPSAS-influenced. The available sources do not establish a common tiered NFP model comparable with New Zealand.[9]
Malaysia	**NFP** - Legal-form-based application of private-sector standards or adapted requirements; there is no single comprehensive NFP GAAP identified in the	Depending on legal form and statutory obligations, an NFP may apply IFRS-based Malaysian Financial Reporting Standards (MFRS) , the IFRS for SMEs-based Malaysian Private Entities Reporting Standard (MPERS), or other adapted requirements and guidance. The framework is therefore more closely tied to entity type and size than to a single NFP-specific suite. [10] Public-sector entities apply Malaysian Public Sector Accounting Standards, which are accrual-basis national public sector accounting standards adapted from and substantially aligned with the IPSAS. [11]

5 International Federation of Accountants (IFAC), *United Kingdom – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies Canada's accrual-based national standards framework developed by the Public Sector Accounting Board (PSAB).

6 AOSSG presentation Capacity Building Activities: Non-Profit Reporting Frameworks – Insights from India provides insight into the non-mandatory NPO-specific guidance.

7 International Federation of Accountants (IFAC), *India – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies India's cash-based national standards framework developed by the Government Accounting Standards Advisory Board (GASAB).

8 Sourced from the Council on Foundations paper *Accounting Regulation of Non-Profit Organizations in China* with the assistance of AI.

9 International Federation of Accountants (IFAC), *China's mainland – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies China's accrual-based national standards framework developed by the Ministry of Finance and assesses IPSAS as partially adopted

10 Sourced from Ecovis, MPERS vs MFRS Malaysia: Key Differences Explained and MASB, Approved Accounting Standards for Private Entities with the assistance of AI.

11 International Federation of Accountants (IFAC), *Malaysia – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies Malaysia's IPSAS-based national standards framework developed by the Government Accounting Standards Advisory Committee.

	source file. **Public sector** - IPSAS-based national public-sector standards. [1]	
Singapore	**NFP** - National private-sector standards supplemented by charity-specific recommended practice. **Public sector** - National public-sector requirements described in the source file as IPSAS-aligned. [1]	Charities generally apply the applicable Singapore Financial Reporting Standards together with the Charities Accounting Standard or charity-specific Statement of Recommended Accounting Practice, according to eligibility and the regulatory requirements applying to the entity. These materials address charity-specific presentation and accounting matters. The Commissioner of Charities oversees charity reporting.[12] Public-sector entities follow separate government reporting requirements. [13]
South Korea	**NFP** - National standards determined principally by legal form and size; and there is no fully separate, universally applicable NFP GAAP. **Public sector** - Accrual-based national government accounting standards influenced by IPSAS. [1]	NFP entities generally apply the accounting requirements associated with their legal form, including applicable Korean GAAP, K-IFRS or simplified requirements, together with sector-specific rules for foundations, charities and comparable bodies. The framework is consequently fragmented rather than a single comprehensive NFP model. Government-controlled entities apply Korean government National Accounting Standards or Local Government Accounting Standards.[14]
Germany	**NFP** - Legal-form and size-based national requirements, principally derived from the German Commercial Code rather than a separate comprehensive NFP GAAP. **Public sector** - Federal, state and municipal arrangements, including traditional budgetary accounting and accrual reforms.	NFP organisations may be associations, foundations, limited liability companies or other legal forms. There is no special legal form for NPOs with a public benefit purpose. Accounting requirements arise from the Handelsgesetzbuch (Commercial Code), or HGB, tax law, civil law and sector-specific legislation. Larger or incorporated entities may be subject to commercial-law financial reporting, while smaller associations and foundations may use simpler receipts-and-payments or tax-oriented records. [15] Public-sector reporting is not a single nationwide NFP framework and is determined by separate legal and regulatory frameworks at the federal, state, and local levels rather than by a single national public sector accounting standard-setter. The Budgetary Principles Act permits accrual-based approaches, but the federal government continues to use cash-based budgetary accounting, while practices at the state and municipal levels remain mixed. [16]
Japan	**NFP** - Separate national standards or	NFP reporting is not governed by one comprehensive standard applying to every NFP. Applicable requirements depend on whether the entity is an incorporated

[12] Singapore Charities Act (Accounts and Annual Report) Regulations 2011 with the assistance of AI.

[13] International Federation of Accountants (IFAC), *Singapore– Adoption of International Standards*, section on International Public Sector Accounting Standards which identifies Singapore's cash-based government accounts and accrual-based Statutory Board Financial Reporting Standards (SB-FRS) derived primarily from Singapore Financial Reporting Standards and tailored to the public sector context.

[14] International Federation of Accountants (IFAC), *Korea – Adoption of International Standards*, section on International Public Sector Accounting Standards.

[15] Sourced from Council on Foundations Nonprofit Law in Germany , Winheller, Annual Financial Statements for Foundations in Germany and Bookkeeping for Associations in Germany | Tax Advice with the assistance of AI.

[16] International Federation of Accountants (IFAC), *Germany – Adoption of International Standards*, section on International Public Sector Accounting Standards, which identifies Malaysia's IPSAS-based national standards framework developed by the Government Accounting Standards Advisory Committee.

	guidance by legal form, including standards for incorporated NPOs and other classes of non-business entities. **Public sector** - National standards, with some reference to international public-sector approaches. [1]	NPO, public-interest corporation, social welfare corporation, school corporation or another legal form. [17] National NPO accounting standards as the principal framework for NPO entities. Public sector accounting standards for the central government is established by the Ministry of Finance, while the Ministry of Internal Affairs and Communications (MIC) is responsible for the accounting framework applicable to local governments. Both central or local government-controlled not-for-profit entities apply accrual-based financial statements that are national standards unique to Japan. [18]
Kenya	**NFP** - Transitioning from diverse IFRS-based, donor and regulatory practices to INPAS through a national adoption roadmap. **Public sector** - Separate public-sector framework, with IPSAS-related reforms.	Launched the National Roadmap for the Adoption of INPAS for not-for-profit entities requiring INPAS financial statements for periods beginning on or after 1 January 2028, with narrative reporting following one year later.[19] Kenya is currently in the process of adopting IPSAS (without modifications) on a full accrual basis for the government and public sector. [20] Full IPSAS implementation is expected by 2027.
Thailand	**NFP** - National, simplified or sector-requirements determined by registration and legal form. **Public sector** – IPSAS-based or IPSAS-influenced national standards. [1]	Foundations, associations and other NFP bodies apply reporting requirements arising from the Accounting Act, registration rules and guidance issued by relevant authorities and the Federation of Accounting Professions. The NFP approach as simplified standards rather than a comprehensive separate NFP GAAP. Public-sector entities operate under a separate public-sector framework. [21]

[17] Sourced from Council on Foundations Nonprofit Law in Japan

[18] International Federation of Accountants (IFAC), *Japan – Adoption of International Standards*, section on International Public Sector Accounting Standards.

[19] Institute of Certified Public Accountants of Kenya (ICPAK) Release of the National Roadmap For Adoption of the International Non-profit Accounting Standard (INPAS) In Kenya

[20] International Federation of Accountants (IFAC), *Kenya – Adoption of International Standards*, section on International Public Sector Accounting Standards.

[21] International Federation of Accountants (IFAC), *Thailand– Adoption of International Standards*, section on International Public Sector Accounting Standards which identifies Thai Public Sector Accounting Standards and Policies (TPSAS), which are partial-accrual national standards developed with reference to IPSAS.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	12 October 2026
Subject:	**Tier 3 and Tier 4 Public Benefit Entities (PBEs) – alternative framework analysis**
Date:	30 September 2026
Prepared by:	Alex Stainer
Through:	Nimash Bhikha, Michelle Lombaard

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

Purpose

1. The purpose of this memo is to present staff analysis of alternative framework options for Tier 3 and Tier 4 Public Benefit Entities (**PBEs**), and to seek agreement from the Board on whether any alternative framework options should be included in the wider Accounting Standards Framework (**ASF**) Discussion Paper.
2. The memo also seeks Board feedback on the direction of the relevant excerpt for the ASF Discussion Paper and consultation questions.

Recommendations

3. The Board is asked to:
   (a) **PROVIDE FEEDBACK** on the analysis of the current Tier 3 and Tier 4 PBE sector and reporting framework;
   (b) **PROVIDE FEEDBACK** on staff analysis of alternative framework options for Tier 3 and Tier 4 PBEs.
   (c) **AGREE** that none of the alternative framework options should be presented as viable options in the ASF Discussion Paper for consultation.
   (d) **PROVIDE FEEDBACK** on the proposed Discussion Paper excerpt and proposed consultation questions.

Scope of this paper

5. This paper focuses on Tier 3 and Tier 4 PBEs that apply the Tier 3 or Tier 4 reporting requirements under the ASF.
6. The paper does not consider:
   (a) entities that voluntarily opt in to apply Tier 3 or Tier 4 reporting standards;
   (b) broader questions about legislative reporting thresholds; or
   (c) the criteria used to allocate entities to tiers.

7. The paper assesses reporting framework options and their suitability for Tier 3 and Tier 4 PBEs. It does not aim to assess any of the individual requirements of these standards or propose changes to any specific recognition, measurement, presentation or disclosure requirements.
8. This paper should be read together with the PBE overview paper which provides the context for the PBE sector reporting frameworks, including the common assessment criteria, and other cross-cutting matters relevant to PBEs.
9. This paper applies that context to the Tier 3 and Tier 4 PBE population including both Public Sector PBEs and Not-for-Profit PBEs. For this assessment, the relevant starting point is the current locally developed Tier 3 and Tier 4 reporting frameworks in New Zealand for those entities required by legislation to apply XRB standards.

Contents

Section	Purpose
Background and context including legislative and regulatory environment	Provides the tier-specific context needed to understand the reporting population, current requirements and the legislative settings that determine which entities prepare GAAP or non-GAAP financial statements.
Characteristics of Tier 3 and Tier 4 PBEs including information needs of users and preparer considerations	Describes the nature, scale and diversity of entities within the relevant tier, including features that may affect the framework assessment. Considers the information needs of users and the practical, audit and cost considerations for preparers applying the framework
Development of Tier 3 and Tier 4 Standards	Provides context for Tier 3 and Tier 4 reporting, including a description of the post-implementation review and resulting standard-setting changes.
Insights and challenges with the current framework	Explains how the current framework operates in practice, including identified benefits, challenges and implementation issues.
Considering alternative framework options	Identifies the framework options considered for the relevant tier, including the current framework and alternative options within the scope of the paper. Assesses each framework option using the common framework-level criteria and identifies the key benefits, limitations and implications of each option.
Overall observations	Summarises the overall assessment and identifies whether the framework option or options should be presented for consideration in the public discussion paper.

Appendix Contents	Factsheets: • IFRS for SMEs • INPAS High-level information on: • Australia Tier 3 NFP framework • IPSAS cash basis Summary slides

Background and context

What are Tier 3 and Tier 4 PBEs?

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

5. 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.

6. This is displayed in the table below.

Sector	Classification basis	Tiers and standards framework
For-profit	Entity is not a PBE	Tier 1 – public accountability - 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 – public accountability or expenses over $33 million - PBE Standards based on International Public Sector Accounting Standards (IPSAS) Tier 2 – expenses less than $33 million - PBE Standards reduced disclosure regime Tier 3 - expenses less than $5 million – domestic Tier 3 Standard (simplified requirements – accrual based) Tier 4 – defined by legislation (rather than by the XRB); must have operating payments of less than $140,000 in each of the last two accounting periods - domestic Tier 4 Standards (simplified requirements – cash based)

7. In this memo we are focussing on Tier 3 and Tier 4 PBEs across both the public sector and the not-for-profit sector, and the standards that have been developed by the XRB for these populations.

What was the rationale behind forming Tier 3 and Tier 4?

8. Through the 2011-2013 financial reporting reforms, changes to New Zealand's external reporting legislation required many small public benefit entities (PBEs), particularly charities, some Māori asset governance entities, and other not-for-profit organisations, to prepare financial statements in accordance with generally accepted accounting practice (GAAP) for the first time. GAAP was redefined within the Financial Reporting Act 2013 as complying with applicable financial reporting standards issued by the External Reporting Board. This definition no longer

included the more general use of accounting policies that have authoritative support within the accounting profession.

9. These reforms were based on ensuring that general purpose financial reports (GPFR) were prepared by entities across New Zealand's reporting landscape as appropriate (i.e. the preparation of financial statements for users that are not in a position to request particular information from the entity directly).

10. Several key policy considerations were identified to help understand where a requirement to prepare GPFR may be appropriate or necessary. These policy considerations included public accountability, economic significance, and separation between ownership and management. [1]

11. From a public benefit entity perspective, policy makers ultimately considered that certain entities were publicly accountable because they are effectively owned by the wider public and/or are commonly funded through taxes, rates, donations, grants, or other forms of public support. Accordingly, it was concluded that these entities should provide financial information for accountability and transparency purposes to users who are unable to demand it directly. However, many affected entities were small, meaning full PBE Standards would have imposed disproportionate compliance costs relative to the size of the entity and the likely information needs of their users.

12. The policy reforms therefore contemplated additional reporting tiers, with the XRB tasked with developing appropriately scaled reporting requirements that would maintain accountability while achieving a better balance between the benefits and costs of reporting. As a result, Tier 3 and eventually Tier 4 (in recognition of the needs of the smallest of PBEs) were formed.

13. The XRB was empowered by the Government to develop simple format reporting requirements for these entities that would align with policy intention to provide simple, accessible and proportionate reporting requirements. The Tier 3 requirements were intended to include a statement of financial performance, a statement of financial position, and simple service performance reporting, while Tier 4 was intended to be simple cash reporting. Both approaches were intended to follow a templated 'fill the boxes' type approach to make reporting simple for these smaller PBEs which may not have spare resources.

14. At the time, the XRB also considered the broader question of other appropriate reporting frameworks (particularly for the not-for-profit PBEs). In doing so, it noted that there was no internationally recognised accounting framework specifically designed for not-for-profit entities and expressed concerns about whether jurisdiction-specific alternatives would be sufficiently robust, appropriate for New Zealand circumstances, or coherent with New Zealand's wider reporting framework.

Legislative settings

15. The financial reporting reforms were implemented primarily through amendments to legislation governing the relevant entity types[2]. Where policy makers concluded that particular entities should prepare GPFR, the relevant legislation was amended to require the preparation of financial statements in accordance with financial reporting standards issued by the XRB. Depending on the legislative requirements applying to the entity, this could involve reporting in accordance with either GAAP[3] or a non-GAAP standard[4].

[1] For further detail refer to the 2009 Discussion Document published by the Ministry of Economic Development detailing these proposals.
[2] Note that amendments were made to a wide range of legislative regimes that govern different entity types/specific entities.
[3] Defined as financial reporting standards issued by the XRB – s5 Financial Reporting Act 2013
[4] Defined as financial reporting standard (i.e. a financial reporting standard issued by the XRB) that is stated in the standard to be a non-GAAP standard – s5 Financial Reporting Act 2013

16. The reforms also reflected the deliberate policy decision that the smallest PBEs should be permitted to prepare simple cash-based reports rather than GAAP-compliant accrual-based financial statements.

17. To give effect to this policy, the concept of a *specified not-for-profit entity*[5] was introduced into the Financial Reporting Act 2013 and relevant legislation. In those legislative regimes where the concept applies, this definition establishes the size criteria under which an entity must prepare financial statements in accordance with GAAP. Entities that do not meet the definition are instead permitted to prepare financial statements in accordance with a non-GAAP standard issued by the XRB.

18. The XRB reflects this distinction through the reporting tiers set out in XRB A1 *Application of the Accounting Standards Framework*. XRB A1 establishes Tier 3 as a GAAP reporting tier for PBEs that do not have public accountability and have expenses below a specified threshold (currently $5 million[6]) and identifies Tier 4 as the reporting tier comprising a non-GAAP standard.

19. As a result, although Tier 3 and Tier 4 are both part of the domestic PBE reporting framework, their populations are defined differently. The eligibility for Tier 3 is determined by the XRB through the reporting standard XRB A1, whereas the Tier 4 population is determined through primary legislation and associated legislative definitions. Consequently, changes to Tier 3 eligibility can generally be considered by the XRB, whereas fundamental changes to Tier 4 eligibility would require legislative change.

Who are Tier 3 and Tier 4 reporters, and how many are there?

20. Tier 3 and Tier 4 reporters fall across both the public sector and the not-for-profit sector. Public sector and not-for-profit PBEs are defined in XRB A1 as:

    (a) A public sector PBE comprises public entities, as defined in the Public Audit Act 2001, and all Offices of Parliament.

    (b) A not-for-profit PBE is any PBE that is not a public sector PBE.

21. The table below outlines the type of entities that make up these respective populations.

PBE sector	Tier 3 and Tier 4 Examples	Estimated population (where known)

PBE sector (Public sector PBE)	These entities comprise a diverse range of organisations established or governed through legislation to fulfil public, community, stewardship or regulatory functions. These include:
	• See Schedule 1 Public Audit Act 2001 for classes of public entities (whereby some may qualify for Tier 3 and Tier 4) – often includes:
	  ○ Cemetery Boards
	  ○ Reserves Boards
	  ○ Provincial Patriotic Councils
	  ○ Rural Education Activities Programmes
		Tier 3 and Tier 4 public sector PBEs[7]
		• Approx. 200 entities
		• Circa 160 entities applying Tier 3, and 40 entities applying Tier 4.
		• Does not at this point in time include schools (as they currently opt up into Tier 2). However, if this were to change circa 1,800 additional entities may apply Tier 3.

[5] An entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity and all entities it controls (if any) are $140,000 or more - s46 Financial Reporting Act 2013
[6] Originally $2 million, was updated to $5 million from 28 March 2024 – see Updated PBE tier sizes (issued February 2024)
[7] Data based on records shared by the Audit Office

	• See Schedule 2 Public Audit Act 2001 for specifically listed public entities (whereby some may qualify for Tier 3 and Tier 4)	

PBE sector (Not-for-profit PBE)	• Registered charities
	• Incorporated societies
	• Agricultural and Pastoral societies (A&P societies)
	• Friendly societies
	• Māori Asset Governance Entities:
	  ○ Māori Trust Boards
	  ○ Māori Land Trusts
	  ○ Māori Incorporations (where not-for-profit)
	  ○ Māori Reservations
		Tier 3 and Tier 4 not-for-profit PBEs
		• Approx. 33,000 + entities; includes registered charities (26,000) and incorporated societies that are not also registered charities (approx. 7,000 – 9,000)[8]
		• Circa 8,000 registered charities are eligible for Tier 3 and 18,000 are eligible for Tier 4. Estimates for incorporated societies that are not also registered charities indicate 3,500 – 5,500 are eligible for Tier 3 and 3,500 are eligible for Tier 4[9]
		• The volume of other entities applying Tier 3 and Tier 4 is rather small in comparison to these populations. For instance, A&P societies and friendly societies populations are small (likely less than 100 entities each that apply Tier 3 and Tier 4).

Characteristics of the Tier 3 and Tier 4 populations

22. Although these entities are classified into the PBE sector, and fall within the lower tiers of the reporting framework, there are important differences, as well as areas of commonality, between public sector PBEs and not-for-profit PBEs that apply Tier 3 and Tier 4.

23. These characteristics have been an important consideration in the development of the Tier 3 and Tier 4 Standards, which seek to balance accountability and transparency with the capability, resources, and information needs across both these reporting populations.

24. Most notably, these differences arise in respect of the preparers, users, and the levels of scrutiny and accountability across these sub-sectors.

PBE sector	Specific characteristics
PBE sector (Public sector PBE)	**Preparers** • Finance teams, shared services, outsourced accountants. • Technically capable but preparation of GPFR for these entities may not be a primary focus **Users and information needs** • Resource providers and service recipients; but more specifically they have clear accountability to Ministers, related agencies, and beneficiaries or communities they impact. • There is an emphasis on information on stewardship of resources, how public funds have been spent (efficiency, effectiveness and probity), services that have been delivered, and how public assets have been used. **Funding**

[8] Registered charities data collated from publicly available dataset provided by Charities Services, while estimates for incorporated societies are based on sample data across this population.
[9] These estimates are based on information provided by the incorporated societies registrar, which noted that across the 2022 to 2023 period, an average of 5,597 societies would meet Tier 1-Tier 3 requirements, and an average of 3,552 societies would meet Tier 4 requirements but would not be considered a 'small' society (which can choose to apply other financial reporting requirements set out in the Incorporated Societies Act).

	• Public sector status is not necessarily indicative of how an entity is funded, and funding arrangements can vary considerably across the population. • Funding arrangements across the Tier 3 and Tier 4 public sector population may include government funding, grants, rates, levies, licence fees, user charges, fees for services, other commercial income, investment income and other revenue sources. • Although many Tier 3 and Tier 4 public sector PBEs are relatively small entities, they operate within a broader public accountability environment and are often responsible for managing public resources, community assets or delivering services intended to benefit the public or a defined community. • As a result, users are often interested in how those resources have been obtained, managed and applied, whether services have been delivered effectively, and whether resources have been used for their intended purpose. • Accountability expectations are therefore often linked to stewardship, transparency and public interest considerations rather than the size of the entity alone.
PBE sector **(Not-for-profit PBE)**	**Preparers** • Volunteers, part-time treasurers, outsourced accountants. • Turnover, capability gaps and resource constraints are often more pronounced than in the public sector. **Users and information needs** • There can be a diverse range of users - donors, funders, members, service recipients, regulators, and the general public. While many of these users have similar information needs to public sector users, they may also be interested in not-for-profit-specific information, including fundraising, donations, member fees, bequests, volunteer costs, and endowment assets, rather than the direct use of tax-payer funds. • Scrutiny can also vary across this sub-sector. For example, charities may face more external scrutiny (general public or regulators) whereas incorporated societies may face greater internal scrutiny (members etc.). **Funding**[10] • Tier 3 and Tier 4 charities are funded through a diverse mix of donations, grants, service delivery activities, membership fees, investments and commercial activities. • For Tier 3 charities, government service delivery contracts represent the largest single source of revenue (approx. 25%), followed by donations (approx. 20%) and commercial activities (approx.17%). • Tier 4 charities rely more heavily on donations (approx. 44%) and grants (approx. 13%), reflecting the smaller scale and community-based nature of many organisations. • These funding patterns indicate that even relatively small entities are often entrusted with significant amounts of public, donor, member and community resources, creating ongoing accountability and transparency expectations. Noting that Tier 3 charities generally exhibit more diversified funding profiles, whereas Tier 4 charities tend to be more reliant on donations and grants. • Equivalent funding data is not available for incorporated societies. However, given their membership-based structure, membership subscriptions, participation fees and member-funded activities are expected to represent a larger proportion of funding than is typically observed amongst charities.

25. While the Tier 3 and Tier 4 Standards have been developed to meet user information needs and achieve an appropriate balance between the costs and benefits of reporting, the broader reporting ecosystem is also an important consideration. This includes the role of intermediaries,

[10] Staff have analysed data from the Charities Services register, in respect of Tier 3 and Tier 4 charities that have filed 2026 annual returns to date.

software providers, templates, auditors, regulators, and other parties that influence how reporting requirements are implemented in practice.

26. While public sector and not-for-profit entities operate within different legislative and accountability frameworks which may impact how, when, and to whom they report, many Tier 3 and Tier 4 entities share similar practical reporting circumstances. Across both sectors, entities may rely on outsourced accounting support or intermediaries, and face similar capability, resource, and implementation considerations. These shared characteristics, together with broadly similar reporting requirements, have contributed to the development of a common reporting ecosystem in which preparers, governing bodies, accountants, auditors, software providers, regulators, and other intermediaries interact with the reporting framework in similar ways

PBE sector	Shared characteristics
Tier 3 and Tier 4 PBEs **(both public sector PBEs and not-for-profit PBEs)**	**How reports are produced** • Reports are often produced through accounting software systems (e.g. Xero) or XRB templates, while intermediaries may produce out of their own systems. **Influences on reporting behaviour** • External accountants, auditors and regulators play a significant role in shaping reporting practice across these tiers. • The capability and experience of intermediary assistance currently varies across the market in respect of Tier 3 and Tier 4 – the large scale and resource constrained nature of not-for-profit entities in particular, means a wide range of intermediaries are applying these reporting requirements. • Resource constraints are a significant driver of reporting behaviour, particularly for not-for-profit entities where ease of preparation and low cost may cause tension with the requirements of the Standards. • Governing boards/committees influence key judgements and outcomes (e.g. clarity for users in reporting, or compliance with the Standard etc.) • Regulators and oversight bodies (e.g. Charities Services, CA ANZ, auditors) reinforce expectations regarding reporting quality and compliance with the Standards. • In practice, XRB templates often become the starting point for reporting rather than the underlying Standards themselves.

27. These characteristics highlight that the effectiveness of the Tier 3 and Tier 4 framework is influenced not only by the technical requirements of the Standards themselves, but also by how those requirements interact with preparers, users, intermediaries, software solutions, templates, regulators, and other participants in the reporting ecosystem.

Development of Tier 3 and Tier 4 Standards

28. The Tier 3 and Tier 4 Standards were developed between 2011 and 2015 and became effective following the introduction of the Financial Reporting Act 2013. Prior to these reforms, reporting requirements for many smaller public benefit entities varied considerably. Some entities were subject to prescribed reporting requirements, while others prepared financial statements using a range of reporting practices with limited consistency across the sector.

29. The introduction of Tier 3 and Tier 4 reporting represented a significant change for many smaller entities. For the first time, large populations of public benefit entities were provided with reporting requirements specifically designed for their size, capability and accountability obligations. The standards sought to provide a practical and proportionate reporting framework while improving the quality, consistency and transparency of financial reporting.

30. As entities began applying the new requirements, implementation experience highlighted both the benefits of a common reporting framework and a range of practical issues relating to the application of the Standards. These included questions regarding understandability, complexity, proportionality, ecosystem capability and the suitability of some requirements for the populations they were intended to serve.

31. These experiences, together with broader stakeholder feedback, subsequently informed the post-implementation review of the Tier 3 and Tier 4 Standards.

Post Implementation Review of Tier 3 and Tier 4

32. Following the initial implementation of the Tier 3 and Tier 4 Standards, the NZASB initiated a comprehensive post-implementation review (PIR) in 2020 to assess whether the Standards were operating as intended and achieving their objectives. The review considered whether the reporting requirements were meeting user needs, improving the quality and consistency of reporting, and achieving an appropriate balance between accountability and reporting costs. The review also considered whether any issues had emerged since implementation and whether amendments were required.

33. The PIR involved extensive consultation across the reporting ecosystem. The NZASB issued a Request for Information in 2020 and received more than 100 submissions through written responses, surveys, interviews and other stakeholder engagement activities. Feedback was received from preparers, auditors, regulators, professional bodies and other stakeholders involved in the preparation, use and oversight of Tier 3 and Tier 4 reports.

34. Overall, the PIR found that the Tier 3 and Tier 4 Standards were working well and achieving their intended objectives[11]. Respondents generally considered that the Standards had improved the quality, consistency and comparability of information reported by smaller PBEs, provided a clear reporting structure, and enhanced accountability through the inclusion of both financial and service performance information. Performance reports prepared under the Standards were generally considered to provide sufficient information to meet the accountability and decision-making needs of users.

Key issues identified

35. Although the overall feedback was positive, the PIR identified several areas where further refinements were required. The nature of these concerns differed between Tier 3 and Tier 4.

36. For Tier 4 entities, feedback focused primarily on the accessibility of the Standard. Many respondents considered that the Standard, guidance material and templates were too lengthy, technical and compliance-focused for the smallest reporting entities. Concerns were particularly evident among smaller NFP entities that often relied on volunteers and had limited access to accounting expertise. Respondents emphasised the need for a shorter, simpler and easier-to-apply Standard.

37. For Tier 3 entities, feedback suggested that the overall framework was operating effectively but that several operational issues were creating unnecessary complexity or diversity in practice. Common themes included:

    (a) concerns that revenue recognition requirements were too restrictive, particularly the "use or return" condition applied to grants and funding arrangements;

    (b) difficulties associated with asset revaluations and the need to opt up to Tier 2 requirements for certain assets;

[11] Feedback Statement 'Review of Simple Format Reporting Standards'

(c) challenges in applying service performance reporting requirements and terminology;

(d) concerns regarding minimum income and expenditure categories, consistency of reporting and comparability; and

(e) uncertainty surrounding areas requiring significant judgement or interpretation.

38. The PIR also identified broader ecosystem themes affecting both tiers. These included calls for additional education and implementation support, greater clarity regarding the meaning of "significant", improved guidance on related party disclosures and consolidation requirements, and further consideration of how the Standards could better reflect Te Ao Māori perspectives and reporting practices.

Redevelopment of the framework

39. In response to the PIR, the NZASB undertook a significant redevelopment of the Tier 3 and Tier 4 reporting requirements. The objective was not to replace the existing framework, but to refine and improve it based on implementation experience and stakeholder feedback.

40. For Tier 3, the NZASB concluded that the core framework remained fit for purpose and therefore adopted a targeted improvement approach rather than a fundamental redesign. Changes focused on addressing the most significant operational issues identified through the PIR. These included:

(a) introduction of a revised revenue recognition approach intended to better align revenue recognition with an entity's underlying funding arrangements and activities;

(b) simplified approaches to asset valuation and revaluation;

(c) improvements to service performance reporting requirements and guidance; and

(d) refinements to reporting categories, disclosures and accumulated funds reporting.

41. For Tier 4, the NZASB adopted a more substantial simplification strategy. While alternative approaches were considered during the review, the NZASB ultimately retained the Tier 4 framework and focused on improving ease of use. The revised Tier 4 Standard was shortened, simplified and rewritten using less technical language. Non-essential requirements were removed or made optional, judgement requirements were reduced where possible, and the Standard was redesigned to be more accessible for preparers with limited accounting expertise.

Recently issued Tier 3 and Tier 4 Standards

42. Following completion of the PIR and subsequent standard-setting process, the NZASB issued new Tier 3 and Tier 4 Standards for both public sector and not-for-profit PBEs in May 2023. The new Standards incorporated the key outcomes of the review process and reflected extensive consultation with preparers, auditors, regulators and other stakeholders.

43. The new Standards became mandatory for accounting periods beginning on or after 1 April 2024. For many entities, the first reporting period prepared under the revised requirements was the year ending 31 March 2025.

44. Consequently, the revised Tier 3 and Tier 4 Standards have only recently become operational, and at the time of this review, many entities have completed only one or two reporting cycles under the revised requirements.

45. This is particularly relevant when considering alternative framework options. The current Tier 3 and Tier 4 Standards are not the same standards that were originally introduced as part of the Accounting Standards Framework reforms (like other elements of the ASF). Rather, they represent the culmination of more than a decade of implementation experience, a

comprehensive post-implementation review, extensive stakeholder consultation, and targeted standard-setting improvements.

46. The current framework has therefore had limited time to demonstrate whether the changes introduced through the redevelopment process have fully addressed the issues identified by stakeholders. This is an important consideration when assessing whether more fundamental changes to the Tier 3 and Tier 4 framework are warranted at this stage.

Insights and challenges: continued application of Tier 3 and Tier 4

47. While the revised Tier 3 and Tier 4 Standards have only recently become mandatory, several observations can be made from ongoing engagement with preparers, intermediaries, auditors, regulators and other participants within the reporting ecosystem. These observations provide useful context when considering the future direction of Tier 3 and Tier 4 reporting requirements but do not mean that the current Tier 3 and Tier 4 frameworks are ineffective at present.

Capability, awareness and application

48. Capability continues to be a significant consideration, particularly within the NFP sector. Many Tier 3 and Tier 4 reports are prepared by volunteers, part-time treasurers, governing body members, or external accounting firms servicing large numbers of small entities. Personnel turnover, varying levels of accounting knowledge, and limited organisational resources can all affect awareness of reporting obligations and the consistency with which reporting requirements are applied across the population.

49. Experience from the first year of implementation suggests that reporting outcomes are influenced by a combination of technical requirements, preparer capability, awareness of obligations, implementation support/guidance, and broader ecosystem factors. In many cases, challenges arise not solely from the requirements of the Standards themselves, but from understanding which reporting requirements apply, how they should be implemented, and how changes to reporting obligations should be reflected in practice.

50. Early implementation experience also suggests that awareness and adoption of the revised Tier 3 and Tier 4 Standards is still evolving across parts of the reporting population. This is not unexpected given the revised Standards were only recently introduced and many entities, intermediaries and users are continuing to adapt to the new requirements. As a result, some observed issues may reflect transition and implementation challenges rather than shortcomings in the underlying Standards themselves.

Cost and proportionality

51. Cost and proportionality remain recurring themes, particularly within the NFP sector. For many entities, the costs of preparing financial statements, obtaining professional assistance, or meeting assurance requirements can be significant relative to the resources available to the organisation. These concerns tend to be most pronounced amongst smaller entities that rely heavily on volunteers and operate with limited administrative capacity.

52. Recent policy discussions have also highlighted continuing questions regarding the appropriate reporting expectations for the smallest entities. For example, the Incorporated Societies Act 2022 does not require smaller societies[12] to apply the Tier 4 Standard. This illustrates that proportionality and minimum reporting requirements remain active policy considerations for some parts of the smaller PBE reporting population.

[12] Incorporated Societies Act 2022 – s102(2)(b)(iii)

Coherence in and across tiers

Coherence between Tier 3 and Tier 4

53. The relationship between Tier 3 (accrual basis) and Tier 4 (cash basis) continues to generate practical questions for entities. Although size thresholds form part of the tiering framework, the basis of accounting can be equally influential in determining reporting behaviour. Tier 4 is a cash-based reporting framework, whereas Tier 3 is based on accrual accounting. Consequently, entities that maintain accrual accounting records, track fixed assets and depreciation, prepare budgets on an accrual basis, or otherwise operate using accrual concepts often choose to apply Tier 3 even when they may also be eligible to apply Tier 4.

54. This creates an environment where the accounting basis may be a stronger determinant of reporting behaviour than entity size alone. For some smaller entities, this can result in the application of Tier 3 reporting requirements despite having resource levels more commonly associated with Tier 4 entities.

Coherence within Tier 3

55. Questions regarding coherence within Tier 3 have also become more prominent over time. When originally introduced, Tier 3 was intended as a simplified accrual-based reporting framework for smaller entities. In March 2024, the Tier 3 threshold increased from $2 million of expenses to $5 million of expenses, expanding the range of entities eligible to apply the Tier. As entity size, operational complexity and transaction complexity increase, the appropriateness of a single simplified framework for the full Tier 3 population may need further consideration. This is particularly relevant where Tier 3 now accommodates entities that differ significantly in scale, sophistication and reporting needs.

56. The redevelopment of Tier 3 sought to provide a more comprehensive and self-contained reporting framework, reducing the circumstances in which entities need to refer to Tier 2 PBE Standards. Changes such as the introduction of valuation requirements and revisions to revenue recognition requirements reduced the need for entities to look beyond the Tier 3 requirements when accounting for common transactions and events. Noting that, paragraph 8 of the Tier 3 Standard continues to direct entities to consider Tier 2 PBE Standards where Tier 3 does not provide guidance on a specific transaction or event.

57. As the increase in the Tier 3 threshold has expanded the population of eligible entities, a broader range of transactions, arrangements and levels of transaction complexity may now be encountered within the Tier 3 population. In some circumstances, entities may need to develop accounting policies by reference to the requirements of Tier 2 PBE Standards for matters such as intangible assets, investments, employee benefits, agriculture and other more complex transactions[13]. While this supports the application of appropriate accounting treatments, it may also result in greater variation in accounting practices across Tier 3 entities, depending on the nature and complexity of transactions undertaken and the extent to which Tier 2 requirements are applied.

58. At this stage, there is limited evidence to suggest that substantial numbers of entities are frequently needing to refer to Tier 2 requirements following the recent reissue of the Tier 3 Standard. However, we are aware that this may continue to be necessary in some circumstances. Depending on the characteristics of the population intended to be served by

[13] This excludes interests in other entities, including controlled entities, associates and joint arrangements, where the Tier 3 Standard explicitly requires application of the relevant Tier 2 requirements through Appendix D

Tier 3 in the future, this may be a relevant consideration in how the Tier continues to be refined and developed over time.

Ecosystem influences

Implementation and reporting outcomes

59. Reporting outcomes for Tier 3 and Tier 4 entities are influenced by a broader ecosystem extending beyond the Standards themselves. External accountants, auditors, regulators, software providers and sector bodies all influence how reporting requirements are interpreted, applied and enforced in practice through the templates they provide, advice they give, audit expectations they set, and guidance they issue. For many smaller PBEs, interaction with these participants is more frequent than interaction with the Standards themselves.

60. Templates also play a particularly important role in shaping reporting behaviour. Given the resource constraints that exist throughout the Tier 3 and Tier 4 population, preparers commonly begin with a template and adapt it to their circumstances rather than starting with the underlying Standard. As a result, changes to reporting frameworks are often implemented through templates, software, intermediary practices and implementation guidance, rather than through the Standards alone.

61. Awareness of applicable reporting requirements, adoption of revised Standards, the judgements applied by preparers, expectations of auditors, and guidance issued by regulators can all influence how reporting requirements are implemented in practice, and ultimately the consistency and quality of reporting outcomes. This is particularly relevant given the recent introduction of the revised Tier 3 and Tier 4 Standards and the ongoing transition to those requirements across parts of the reporting population.

Assurance and compliance environment

62. For many Tier 3 and Tier 4 entities, reporting costs are influenced not only by the preparation of financial statements, but also by associated assurance requirements. For example, charities with operating expenditure exceeding $550,000 in each of the previous two financial years are generally required to obtain a review engagement, while charities with operating expenditure exceeding $1.1 million in each of the previous two financial years are generally required to obtain an audit.

63. Consequently, changes in reporting requirements can have implications not only for preparers, but also for assurance practitioners and regulators operating within the wider reporting ecosystem responsible for supporting implementation and compliance. While assurance thresholds sit outside the Accounting Standards Framework, they may influence how entities experience the costs and benefits of Tier 3 reporting requirements[14] in practice.

64. The interaction between reporting requirements, assurance requirements and regulatory expectations therefore influences the practical cost of applying the Tier 3 framework. As a result, consideration of proportionality and reporting burden may need to take into account the broader assurance and compliance environment within which entities operate.

Considering alternative framework options

Why consider alternative frameworks?

65. A key objective of the ASF review is to assess whether the current Tier 3 and Tier 4 reporting framework remains fit for purpose, noting the context above that the Tier 3 and Tier 4

[14] In some cases, Tier 4 reporting requirements also. Public Sector entities are generally subject to an audit.

frameworks are a different starting point compared to other frameworks in the ASF (i.e. they are locally developed by the XRB as opposed to internationally developed, and have recently been refined/redeveloped based on experiences of the sector).

66. While the current framework has been locally developed and refined based on stakeholder feedback, consideration of alternative frameworks provides a useful benchmark against which the current framework can be assessed. It enables consideration of whether alternative approaches may offer advantages in meeting the needs of users, preparers and other participants within the reporting ecosystem.

Identifying alternative frameworks

67. In undertaking this review, staff considered whether alternative framework options exist that may be relevant to Tier 3 and Tier 4 PBEs.

68. The range of alternative frameworks that appear directly comparable and relevant to Tier 3 and Tier 4 PBEs is limited. Many international frameworks were developed for reporting populations with different characteristics, capabilities, resources and reporting environments than those commonly observed across the Tier 3 and Tier 4 population. Many jurisdictions also have differing legislative requirements around which entities must prepare GPFR, and the requirements they must use.

69. Furthermore, the current Tier 3 and Tier 4 framework applies across both public sector and not-for-profit PBEs, with relatively minor differences between sectors. However, in considering alternatives, staff identified the framework options most relevant to the public sector and not-for-profit populations independently.

70. The following alternative frameworks were identified for preliminary assessment. See the Appendix for a summary of these frameworks:

Tier	Public Sector alternative framework options	Not-for-profit sector alternative framework options
Tier 3	IFRS for SMEs	Australian Tier 3 Framework for private not-for-profit entities International Non-Profit Accounting Standards (INPAS)
Tier 4	IPSAS – Financial reporting under the cash basis of accounting (IPSAS cash basis)	IPSAS - Financial reporting under the cash basis of accounting (IPSAS cash basis)

71. These frameworks were identified as being potentially relevant to the Tier 3 and Tier 4 populations because they address similar reporting objectives or challenges, are typically applied by entities with less complex reporting requirements, utilise similar reporting approaches, or have been developed for populations with some comparable characteristics.

High-level assessment

72. Staff undertook a high-level assessment of the identified framework options using the ASF framework-level criteria. The objective was not to undertake a detailed technical comparison of each framework, but rather to determine whether any alternative appeared sufficiently compelling to represent a viable replacement framework for the Tier 3 and Tier 4 populations.

73. Consistent with the assessment approach described in the PBE Overview Paper, the assessment applied the common framework-level criteria, excluding international alignment.

This was on the basis, there is limited evidence to suggest that international alignment is a key driver of reporting outcomes for the Tier 3 and Tier 4 populations. Accordingly, international alignment was not assessed as a separate criterion in evaluating the framework options.

74. The results of the assessment are presented below using a red, amber and green (RAG) framework. For context, the current locally developed framework has also been assessed against the same criteria.

75. The assessment is intended to provide a high-level indication of the relative strengths, limitations and trade-offs of each framework option when considered in the context of the relevant Tier 3 and Tier 4 populations.

Public sector – Tier 3 – high level assessment of IFRS for SMEs and current framework

Assessment across key criteria

Tier 3 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 60 pages	🟢	🟢	N/A	🟢	🟠	🟢	🟠	🟠
B. IFRS for SMEs (adapted) approx. 230 pages	🔴	🔴	N/A	🔴	🔴	🔴	🟠	🔴

🟢 Strong fit / low concern
🟠 Mixed fit / trade-off concerns
🔴 Significant trade-off concerns

76. IFRS for SMEs was identified for assessment because it is an internationally recognised simplified accrual-based reporting framework designed for for-profit entities with less complex reporting requirements than those applying full IFRS. It is one of the few established alternatives to a simplified accrual-based framework.

77. While the framework offers simplification benefits compared with full IFRS, those benefits appear limited in the context of the Tier 3 public sector population. The framework was not designed for public sector entities and would require modification to appropriately address public sector transactions and reporting requirements. Further, a significant limitation of an IFRS-based framework is potentially the limited ability for the XRB to adapt or simplify requirements for New Zealand public sector entities[15].

78. The assessment accordingly identifies significant concerns regarding technical fitness and the limited additional simplification benefits available relative to the current framework. It also indicates that adoption of IFRS for SMEs would likely have significant ecosystem impacts and transition costs given its relative complexity, limited familiarity within the New Zealand public sector environment, and reduced coherence with existing frameworks used in other Tiers.

79. Overall, these factors suggest that IFRS for SMEs offers limited advantages to the Tier 3 public sector population and does not appear to represent a viable replacement framework for this population.

[15] Ability to make changes would be subject to licensing arrangements with IFRS.

Not-for-profit sector – Tier 3 – high level assessment of Australian Tier 3 Framework and current framework

Assessment across key criteria

Tier 3 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 62 pages	●	●	N/A	●	●	●	●	●
B. Australia Tier 3 approx. 110 pages	●	●	N/A	●	●	●	●	●
C. INPAS	●	●	N/A	●	●	●	●	●

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

80. Two alternative frameworks were identified for preliminary assessment in respect of Tier 3 not-for-profit entities:

    (a) the Australian Tier 3 Framework for Private Not-for-Profit Entities; and

    (b) the International Non-Profit Accounting Standards (INPAS) initiative.

81. The Australian Tier 3 Framework was identified because it was developed specifically for smaller not-for-profit entities and seeks to address many of the same reporting challenges and objectives as the New Zealand Tier 3 framework. Of the alternative frameworks identified, it is one of the closest comparators to the current New Zealand framework and reflects a broadly similar objective of providing simplified reporting requirements for smaller not-for-profit entities.

82. However, the framework remains relatively new and largely untested by Australian NFPs in practice. Although it shares a similar objective to the New Zealand Tier 3 framework, it was developed using a different starting point, drawing on IFRS for SMEs and existing accounting standards requirements. Consequently, adoption of the Australian approach would not necessarily represent a simplification of the current New Zealand framework, and modifications required for the New Zealand environment could ultimately result in a framework that is not materially different from the current Tier 3 requirements.

83. Overall, the high-level assessment did not identify sufficient additional benefits or distinguishing features to suggest the Australian approach represents a viable replacement framework for Tier 3 NFP entities.

84. Staff also considered the emerging International Non-Profit Accounting Standards (INPAS) initiative, given its specific focus on not-for-profit financial reporting. However, the framework is based on IFRS for SMEs and adapts that framework to address not-for-profit specific reporting matters.

85. As a result, many of the observations identified in respect of IFRS for SMEs remain relevant. While INPAS may provide a stronger not-for-profit focus, the simplification benefits appear limited in the context of the current Tier 3 framework, which has already been specifically developed and refined for smaller New Zealand not-for-profit entities. Adoption would also have implications for ecosystem capability, framework coherence, transition costs and implementation support.

86. INPAS also remains relatively new and has limited implementation history. The framework is not yet widely adopted internationally and there remains uncertainty regarding practical implementation, ecosystem impacts and long-term maintenance.

87. While INPAS may be relevant to monitor as it continues to develop internationally, the assessment did not identify sufficient evidence to suggest it currently represents a viable replacement framework for Tier 3 not-for-profit entities.

Public sector – Tier 4 – high level assessment of IPSAS cash basis reporting and current framework

Assessment across key criteria

Tier 4 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 18 pages	🟡	🟢	N/A	🟢	🟡	🟢	🟢	🟡
B. IPSAS cash basis approx. 80 pages	🟡	🟡	N/A	🟡	🔴	🟡	🟡	🟡

🟢 Strong fit / low concern
🟡 Mixed fit / trade-off concerns
🔴 Significant trade-off concerns

88. The IPSAS cash basis provides an internationally recognised cash-based reporting framework and represents one of the few readily identifiable alternatives to the current Tier 4 framework. The framework shares several characteristics with the current Tier 4 framework, including a cash-based reporting approach and a focus on simplifying reporting requirements relative to accrual-based frameworks.

89. The high-level assessment indicates that the IPSAS cash basis performs moderately against the review criteria. It is a credible and technically robust framework developed specifically for public sector reporting and aligns broadly with the cash-based reporting approach adopted within Tier 4. However, it was developed for a broader public sector environment than the Tier 4 population and was not designed specifically with New Zealand legislative, policy and accountability settings in mind.

90. The assessment also identified concerns relating to the wider reporting ecosystem. Adoption of IPSAS cash basis would require investment in new guidance, training, software support and implementation resources across preparers, auditors, regulators and other intermediaries. The introduction of an additional reporting framework may also reduce coherence across the reporting tiers and wider reporting environment, increasing complexity for those operating across multiple sectors and tiers. Transition costs would also arise from moving to a different framework, even where both frameworks are cash-based.

91. On balance, while the IPSAS cash basis represents a credible alternative cash-based reporting framework, the assessment did not identify sufficiently clear advantages to suggest it represents a viable replacement framework for the Tier 4 public sector population. It is likely the IPSAS cash basis would provide a different pathway to get to a similar position as the current Tier 4 framework.

Not-for-profit sector – Tier 4 – high level assessment of IPSAS cash basis reporting and current framework

Assessment across key criteria

Tier 4 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 18 pages	🟡	🟢	N/A	🟢	🟡	🟢	🟢	🟡
B. IPSAS cash basis approx. 80 pages	🟡	🟡	N/A	🟡	🔴	🟡	🟡	🟡

🟢 Strong fit / low concern
🟡 Mixed fit / trade-off concerns
🔴 Significant trade-off concerns

92. The high-level assessment indicates that the IPSAS cash basis performs moderately against the review criteria. However, the framework was developed primarily for public sector entities and was not designed to address the particular reporting objectives, accountability relationships, and operating environment commonly observed across the Tier 4 not-for-profit sector.

93. Similar to the public sector assessment, concerns were also identified regarding impacts on the wider reporting ecosystem and transition costs associated with introducing a framework that is not currently used within New Zealand and was not specifically designed for the Tier 4 population.

94. While aspects of the IPSAS cash basis could potentially be adapted for the New Zealand not-for-profit environment, doing so would likely involve local modification of the framework and may ultimately result in a reporting framework that is not materially different from the current Tier 4 requirements. As such, the assessment did not identify significant additional benefits, nor indicate that adoption would materially address the challenges identified through this review.

95. Overall, while the IPSAS cash basis represents a credible alternative cash-based reporting framework, the assessment did not identify sufficiently clear advantages to suggest it represents a viable replacement framework for the Tier 4 not-for-profit population.

Overall observations from the assessment

96. The assessment reinforced the observation that relatively few alternative frameworks are directly comparable to the current Tier 3 and Tier 4 framework. While a range of international reporting frameworks exist, the alternatives assessed did not identify a materially better starting point for the Tier 3 and Tier 4 populations.

97. This is particularly relevant given the current Tier 3 and Tier 4 framework has evolved through more than a decade of implementation experience, stakeholder feedback, post-implementation review and recent redevelopment activity, and reflects how the reporting requirements have been simplified and shaped to cater to Tier 3 and Tier 4 populations and their ecosystems. Using an international starting point may ultimately limit the ability for the XRB to make timely changes based on local implementation experience and feedback, which may be an important consideration given the large volume of entities reporting under Tier 3 and Tier 4 in New Zealand.

98. Given the volumes of entities existing within these tiers, the reliance on intermediaries, templates and accounting software, and the influence of auditors and regulators in awareness raising and reporting behaviours, becomes more pronounced and important to establishing a consistent, comparable and workable reporting practice. Changes to Tier 3 and Tier 4 frameworks could affect a large number of entities and, without clear benefits, introduce additional uncertainty and implementation costs for entities with limited resources.

99. Moving to an alternative framework would therefore involve moving away from a framework that has already been significantly refined for the New Zealand reporting environment in light of all these different aspects. Furthermore, many of the respective challenges for the Tier 3 and Tier 4 populations, relate to compliance, costs of compliance, and understanding of the applicable requirements. The high-level assessment did not indicate that these challenges would be better addressed through the alternative framework options considered.

100. Accordingly, staff have not identified an alternative framework that appears to represent a viable replacement framework for the Tier 3 and Tier 4 populations. Alternative frameworks should therefore be acknowledged within the Discussion Paper as part of the review undertaken, but staff do not recommend presenting them as viable framework options for consultation.

101. Staff's preliminary view is that future improvements for the Tier 3 and Tier 4 framework are more likely to arise through continued refinement of the existing framework rather than replacement with an alternative framework.

Impact for Discussion Paper

102. Although staff did not identify a viable replacement framework, this does not necessarily mean that the current framework should remain unchanged.

103. An important consideration for the review is therefore whether the current Tier 3 and Tier 4 Standards continue to achieve the policy objectives that originally underpinned their development. The original reforms contemplated simple and proportionate reporting requirements for a large population of smaller entities and were intended to provide a practical and accessible reporting solution for entities entering the GAAP framework.

104. Consultation provides an opportunity to test whether the current framework continues to achieve those objectives and whether changes in the operating environment, reporting populations or reporting practices have altered the balance between reporting benefits, compliance costs and reporting burden.

105. Consultation may also assist in understanding whether the current framework continues to appropriately meet the needs of both public sector and not-for-profit entities, and whether there are differences between those sectors that may justify different future directions.

106. Accordingly, staff consider consultation should focus on the following areas:

    (a) whether stakeholders agree that the current locally developed framework remains the most appropriate approach for Tier 3 and Tier 4 reporting;

    (b) whether the current Tier 3 and Tier 4 framework continues to achieve the policy objectives that originally underpinned its development, including whether the current reporting requirements (and assurance requirements) appropriately balance user needs, accountability, reporting burden and the costs of preparation for public sector entities, not-for-profit entities, and both sectors collectively;

    (c) whether stakeholders agree that none of the alternative framework options identified warrant further detailed investigation as replacement frameworks; and

    (d) whether there are other approaches or framework options that should be considered as part of the ASF review.

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 accountability considerations, as well as any other contextual information relevant to the Tier 3 and Tier 4 public benefit entities?

Q2. Does the Board have any **FEEDBACK** on the framework options analysis presented, including whether it appropriately captures the considerations relevant to assessing the suitability of the frameworks for Tier 3 and Tier 4 public benefit entities?

Q3. Does the Board **AGREE** that the alternative frameworks considered should be acknowledged in the Discussion Paper but not presented as viable replacement framework options for consultation?

Q4. Does the Board **IDENTIFY** any areas where further analysis or evidence is required to support the ASF discussion paper?

Extract of public discussion paper

107. We propose including the following blue extract in the Discussion Paper. The extract summarises the alternative frameworks considered and explains why staff do not propose presenting them as viable replacement options for consultation. It instead seeks stakeholder feedback on whether the current locally developed framework remains the appropriate foundation and continues to achieve its original policy objectives.

Draft Discussion Paper text for Tier 3 and Tier 4 PBEs

Tier 3 and Tier 4 PBE reporting frameworks

As part of the Accounting Standards Framework review, we are reviewing whether the current Tier 3 and Tier 4 reporting framework remains fit for purpose for smaller public benefit entities (**PBEs**).

The current Tier 3 and Tier 4 reporting framework was originally developed between 2011 and 2015 following wider financial reporting reform that brought significant numbers of public benefit entities into the GAAP reporting framework for the first time. This was on the basis that many public benefit entities have accountability obligations arising from public ownership, receive income-tax exemptions, and use public resources, donations, grants, taxes, rates or other forms of public funding.

Given the large number of smaller entities within the population, significant emphasis was placed on ensuring reporting requirements remained proportionate by balancing accountability obligations and the benefits of reporting against the costs of preparation.

To support those policy objectives, the XRB developed separate reporting standards for smaller PBEs. Tier 3 was designed to provide simplified accrual-based reporting requirements considered as GAAP, while Tier 4 was developed as a simple cash-based reporting framework intended to reduce reporting and compliance burden for the smallest entities (considered as a non-GAAP standard as this was cash-based requirements).

Since their initial implementation in 2015/2016, the Tier 3 and Tier 4 Standards have been reviewed through a post-implementation review process in 2020 involving extensive stakeholder feedback, and subsequently simplified and refined (Tier 3) and significantly simplified and redeveloped (Tier 4). Non-essential requirements were removed or made optional, judgement requirements were reduced where possible, and the Standard was redesigned to be more accessible for preparers with limited accounting expertise

The revised Tier 3 and Tier 4 Standards became mandatory from 1 April 2024. For many entities, the first reporting period prepared under the revised requirements was the year ending 31 March 2025. Consequently, the revised Tier 3 and Tier 4 Standards have only recently become operational, and at the time of this review, many entities have completed only one or two reporting cycles under the revised requirements.

As such, the current Tier 3 and Tier 4 Standards are not the same standards that were originally introduced as part of the Accounting Standards Framework reforms (like other elements of the ASF). Rather, they represent the culmination of more than a decade of implementation experience, a comprehensive post-implementation review, extensive stakeholder consultation, and targeted standard-setting improvements. As part of reviewing whether the approach of locally developing these reporting requirements and the current standards remains fit for purpose, we have considered whether alternative reporting frameworks may provide a more appropriate basis for achieving the objectives that originally underpinned Tier 3 and Tier 4 reporting.

Review of alternative framework options

A range of reporting frameworks exist internationally around general purpose financial reporting designed for large entities, and small and medium sized entities. However, relatively few appeared directly comparable to the current Tier 3 and Tier 4 framework, or relevant given the particular characteristics of the Tier 3 and Tier 4 New Zealand population and its wider reporting ecosystem.

Alternative frameworks identified for preliminary assessment included:

Tier	Public sector	Not-for-profit
Tier 3	• IFRS for Small and Medium Sized Entities (**IFRS for SMEs**)	• Australian Tier 3 Framework for Private Not-for-Profit Entities • International Not-for-Profit Accounting Standards (**INPAS**)
Tier 4	• IPSAS Financial Reporting Under the Cash Basis of Accounting (IPSAS cash basis)	• IPSAS Financial Reporting Under the Cash Basis of Accounting (IPSAS cash basis)

These frameworks were identified because they address similar reporting objectives or challenges, seek simplification and balance between benefits and costs of reporting, utilise similar reporting approaches, or have been developed for populations with broadly comparable characteristics.

A high-level assessment of these frameworks was undertaken by the XRB. While individual alternatives exhibited strengths in particular areas, the assessment did not identify any framework that appeared to provide a materially better starting point for the Tier 3 and Tier 4 populations than the current framework. The assessment also recognised that the revised Tier 3 and Tier 4 Standards only recently became mandatory and that some challenges observed in practice may relate to ongoing implementation and adoption rather than the underlying framework itself.

This is for several reasons:

- the current framework has been refined through more than a decade of implementation experience, stakeholder feedback and post-implementation review;
- the reporting requirements were specifically developed for the New Zealand Tier 3 and Tier 4 populations and their operating environments, rather than modifications of a framework based on international reporting;
- the current approach provides the XRB with the ability to continue to simplify, refine and update the standards where appropriate; and
- the significant implications that framework change could have across the broader reporting ecosystem given the large population of entities, preparers, users, and auditors.

Adopting an alternative framework would not simply involve replacing one framework with another. It would likely require a process of modification and refinement to reflect the characteristics of the Tier 3 and Tier 4 populations and the New Zealand reporting environment, potentially resulting in an outcome similar to that already achieved by the current framework. In many cases, the international frameworks would likely require significant adjustments to make them proportionate and suitable for Tier 3 and Tier 4 entities, and ultimately in substance, provide a different pathway to get to the same result as the current Tier 3 and Tier 4 frameworks and not address any of the challenges experienced in the sector.

Our preliminary assessment is therefore that the current approach to locally developing these Standards remains the most appropriate approach for Tier 3 and Tier 4 reporting. It provides a strong foundation for future refinement and improvement, and the alternative frameworks considered do not appear to warrant further investigation as replacement frameworks at this time.

A broader question for the review

The conclusion that alternative frameworks do not appear suitable as replacement frameworks does not necessarily mean that the current framework should remain unchanged.

The original Tier 3 and Tier 4 reforms were intended to provide simple, practical and proportionate reporting requirements for smaller PBEs by balancing accountability and user needs with the costs of preparation and compliance. Since that time, the operating environment has continued to evolve. For some entities, the overall cost of reporting is influenced not only by the reporting requirements themselves, but also by assurance requirements, implementation practices and broader regulatory expectations.

For example: For many Tier 3 and Tier 4 entities, costs are influenced not only by the preparation of financial statements, but also by associated assurance requirements. Charities with operating expenditure exceeding $550,000 in each of the previous two financial years are generally required to obtain a review engagement, while charities with operating expenditure exceeding $1.1 million in each of the previous two financial years are generally required to obtain an audit.

This review therefore provides an opportunity to assess whether the current framework continues to achieve the objectives that originally underpinned its development, and whether changes in operating environments, reporting populations, other associated requirements from legislation, stakeholder expectations or reporting practices have altered the balance between accountability, user needs, reporting burden and the costs of preparation.

We are also interested in understanding whether public sector and not-for-profit entities continue to be appropriately served by a common Tier 3 and Tier 4 framework, or whether differences between those sectors may be relevant to the future direction of the framework.

Questions for stakeholders

- **Do the current Tier 3 and Tier 4 requirements continue to achieve the policy objectives that originally underpinned their development (including balancing user needs and reporting costs, accountability, reporting burdens, assurance requirements and compliance burdens)?**
- **Do you agree that the current locally developed Tier 3 and Tier 4 framework remains the most appropriate framework for these populations? Why or why not?**
- **Do you agree that the alternative framework options considered do not warrant further detailed investigation as replacement frameworks for Tier 3 and Tier 4? Why or why not?**
- **Are there any other reporting frameworks or approaches that should be considered as part of the ASF review?**

Questions for the Board

Q5. 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?

Appendix

Factsheets and summary information on alternative framework options

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

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

Overview of the IFRS for SMEs framework

IFRS for SMEs
Accounting Standard

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.

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.

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.

DRAFT

International Non-Profit Accounting Standard (**INPAS**) Fact Sheet

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

Overview of the INPAS framework

What INPAS is

The International Non-Profit Accounting Standard (**INPAS**) is an international financial reporting framework issued by International Non-Profit Reporting Foundation (**INPRF**). It is designed specifically for non-profit organisations (**NPOs**).

INPAS establishes a common financial reporting framework for NPOs that improves transparency, accountability, comparability and decision-usefulness of financial reports. The framework builds on International Financial Reporting Standards for Small and Medium-Sized Entities (**IFRS for SMEs**) and also draws on International Public Sector Accounting Standards (**IPSAS**) in some areas, while adapting them to reflect the characteristics, transactions and reporting needs of NPOs.

International Non-Profit Accounting Standard

At a glance

INPAS is the first international financial reporting standard developed specifically for not-for-profit entities. It provides simplified financial reporting framework intended to support a wide range of not-for-profit entities. However, the standard is newly issued and has not yet been widely tested in practice and may result in unanticipated challenges.

Who INPAS is mainly designed for

INPAS is designed primarily for small and medium-sized NPOs, but it intends to be relevant to a broad range of NPOs. INPAS has an initial focus on those NPOs where accrual-based financial reporting is needed to recognise and measure assets and liabilities and a range of more complex transactions and activities.

Emerging international framework untested in practice

INPAS is newly developed and published only in October 2025 and is not currently used by any NPO globally for their financial reporting. While one jurisdiction has announced adoption from 1 January 2028 and some other jurisdictions are currently considering INPAS for their local reporting requirements, the framework is yet to be tested or implemented at a large scale or benefit from application support and refinements over time.

INPAS is a single standard

INPAS is built around a single accounting standard supplemented by implementation guidance and other supporting materials designed to promote consistent application and comparable financial reporting. The INPAS framework includes:

- **INPAS Standard** – (approx. 300 pages) Standard issued by the INPRF in October 2025, organised into sections such as (*Concepts and principles (A), Revenues (C) etc*).

- **INPAS Implementation Guidance** – (approx.180 pages) Additional non-mandatory material published by the INPRF to support consistent application and understanding of the INPAS standard.

How INPAS works in practice

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

INPAS is developed and maintained by the INPRF, who follows a formal due process involving stakeholder engagement, public consultation and exposure drafts when developing or amending the Standard. In general, it is expected that updates to INPAS will be made less frequently than updates to full IPSASB Standards. While the first edition of INPAS addressed NPO-specific topics prioritised from the 2021 Consultation paper, subsequent editions will address additional topics. These will be determined through a public consultation.

High-level comparison of INPAS and IPSAS reporting frameworks

Area	INPAS	PBE Standards based on IPSAS
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	Newly issued framework – untested in practice and may require refinements once implementation occurs.	PBE Standards are based on IPSAS which are adopted internationally across several jurisdictions.
Global comparability	Seeks to improve comparability of financial reporting across NPOs internationally.	Designed to support international comparability.

Illustrative approaches for recognition and measurement (non-exhaustive):

Financial Statement Line Item	INPAS	PBE Standards based on IPSAS
Revenue	Differentiate between: • grants, donations, gifts and similar transfers – recognition and measurement largely aligned with IPSAS 47 *Revenue*; and • revenue from contracts with customers (such as providing services, goods or other assets to customers) – revenue is recognised when or as the entity satisfies delivery obligations. Requires recognition of services in kind that are critical to an NPO's mission.	PBE Standards differentiate between revenues • from non-exchange transactions – revenue is recognised when or as present obligations are satisfied or immediately if there are no such obligations • from exchange transactions – revenue recognition depends on type of revenue and • from construction contracts Does not require recognition of services in kind that are critical to an NPO's mission.
Expenses	Accounting for grants and donations largely aligned with IPSAS 48 *Transfer Expenses* –	Various IPSASB-based standards – There is no specific standard for transfer expenses. [1]

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

Financial Statement Line Item	INPAS	PBE Standards based on IPSAS
	differentiates expenses from transactions without and with fulfilment rights.	
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 some situations.
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.	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.
Inventories	Measured at the lower of cost and selling price less costs to complete and sell. Inventories acquired through donation measured initially at fair value. Allows certain types of donated inventory to not be recognised until it is sold, used or distributed to service recipients. Reversals of inventory write-downs may be required in some circumstances.	Generally measured at the lower of cost and net realisable value, except certain inventories are measured at cost, adjusted for any loss of service potential. Inventories acquired through a non-exchange transaction measured initially at fair value, with exemptions for certain types of inventories. 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 (maximum 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 surplus or deficit.	Measured using amortised cost, fair value through Other Comprehensive Revenue and Expense (**OCRE**) or fair value through surplus or deficit depending on classification. Certain assets are subject to expected credit loss requirements.
Narrative information	INPAS requires narrative information covering: • Overview of the NPO; • Performance reporting; • Financial objectives and strategies; • Analysis of financial statements; • Principal risks and uncertainties.	PBE Standards do not require disclosure of financial objectives and strategies and analysis of financial statements. Other information required by INPAS is also broadly required by PBE Standards. PBE FRS 48 *Service Performance Reporting* provides detail guidance for performance reporting and an overview of not-for-profit entity.
Net Assets	Requires transparency regarding donor restrictions and designated funds. Provides guidance about restricted and unrestricted funds. Doesn't have the concept of OCRE.	Limited guidance on restricted and unrestricted funds. Requires presentation of OCRE.

Financial Statement Line Item	INPAS	PBE Standards based on IPSAS
NPO specific guidance	INPAS includes guidance on NPO-specific activities, such as fundraising costs, services provided by volunteers, benefits received by volunteers, and donated goods.	Limited guidance specific to volunteer services, fundraising and donated goods.

Other areas not covered within INPAS

There are also several areas where PBE Standards contain requirements which are not within INPAS but may still be helpful to some PBEs. These include, but are not limited to:

- Insurance contracts;
- Service concession arrangements (operator);
- Non-current assets held for sale and discontinued operations; and
- Interim financial reporting, prospective financial statements and summary financial statements.

Australia: AASB 1061 Tier 3 (Private-Sector NFPs) - For more information, refer to the AASB website and the summary factsheet.

Purpose

- Simplified general purpose reporting framework for eligible private-sector NFPs.

Scope

- NFP entities without public accountability.
- Eligibility determined by legislation or regulators.

Basis of accounting

- Accrual accounting.

Minimum reporting package

- Financial position.
- Financial performance.
- Changes in equity.
- Cash flows.
- Notes and comparatives.

Notable features

- Simplified requirements for revenue, leases, financial instruments, impairment and employee benefits.
- No deferred tax accounting.
- Internally generated intangibles generally expensed.
- Reduced consolidation requirements in some circumstances.

Effective date

- Annual periods beginning on or after 1 July 2029.

IPSAS Financial Reporting Under the Cash Basis of Accounting (Public Sector)

Purpose

- Simplified cash-based reporting framework, primarily intended as a stepping stone to accrual reporting.

Scope

- Public sector entities, particularly jurisdictions with limited reporting capability or transitioning to accrual accounting.

Basis of accounting

- Cash accounting.

Minimum reporting package

- Statement of Cash Receipts and Payments.
- Notes and accounting policies.
- Comparative information.
- Budget comparison information (where applicable).

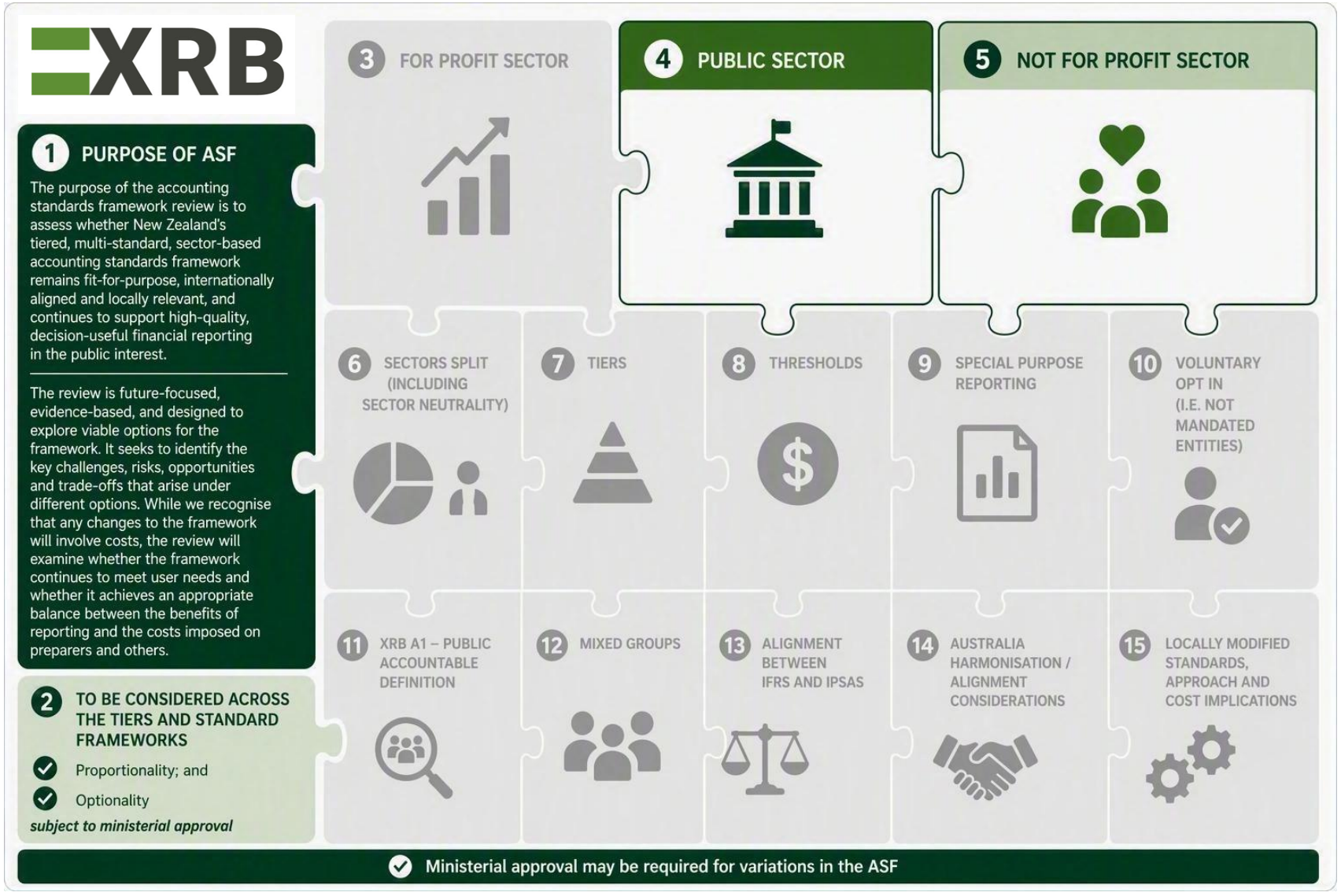
Notable features

- Recognition based on cash received and paid.
- Most assets and liabilities are not recognised.
- Additional disclosures encouraged to support accountability and transition to accrual reporting.
- Consolidation encouraged but not required.

PBE sector – Tier 3 and Tier 4

ASF Review – Where the PS and NFP Tiers 3 and 4 review fits in

The PS and NFP Tiers 3 and 4 sits within the wider Accounting Standards Framework review – as elements 4 and 5.



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.

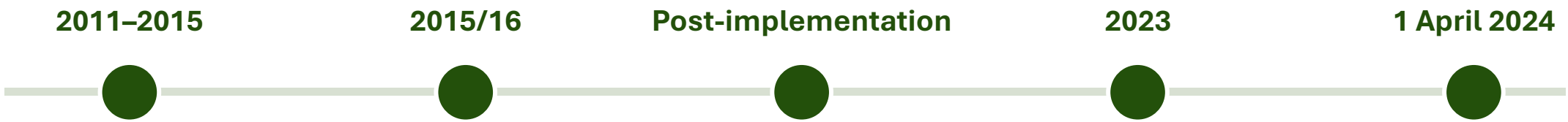
For-profit entities		Framework
Tier 1	• Public accountability (as defined in XRB A1); or • Large public sector for-profit entity with Total expenses > $33 million	NZ IFRS
Tier 2	• No public accountability • For-profit public sector entity with Total expenses ≤ $33 million	NZ IFRS RDR

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).

Background and development of Tier 3 and Tier 4

The current Tier 3 and Tier 4 framework was created to bring smaller public benefit entities into formal reporting while keeping requirements proportionate. It has since been reviewed, redeveloped and reissued.



Alternative framework options for Tier 3 and Tier 4

Alternative frameworks provide a useful benchmark for assessing whether the current framework remains fit for purpose. However, the range that is directly comparable to Tier 3 and Tier 4 PBEs is limited – most were developed for populations with different characteristics, capabilities and reporting environments.

Tier	Public sector alternative framework options	Not-for-profit alternative framework options
Tier 3	• IFRS for SMEs with public sector adaptations	• Australia NFP Private Sector Framework (Tier 3 framework) • INPAS (International Non-Profit Accounting Standards)
Tier 4	• IPSAS cash reporting	• IPSAS cash reporting

Few relevant alternatives exist

- The existing locally developed standards were designed for the Tier 3 and Tier 4 populations
- Few international frameworks target similar populations and reporting objectives (designed for entities of this size and nature)
- Most alternatives are developed for for-profit entities or larger public sector environments
- Options may require modification to be locally relevant and reflect New Zealand circumstances

Framework analysis - assessment criteria

Each alternative framework was assessed against several key criteria.

Process followed

1

Staff prepared a high-level analysis of the alternative framework options.

2

Each framework option was evaluated by considering its benefits and trade-offs and assessing it against a set key criteria (outlined below).

Framework-level key criteria used to evaluate each option

Key criteria	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
This means:	Technical fitness; coherent suite capable of handling PBE 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 of applying and maintaining the standards (i.e. how often are changes expected), including AI-related costs (preparer focus)	Coherence of the frameworks across other tiers (ability to move between tiers)

Tier 3 – Public Sector PBEs: Assessment of framework options

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

Tier 3 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 60 pages	●	●	N/A	●	●	●	●	●
B. IFRS for SMEs (adapted) approx. 230 pages	●	●	N/A	●	●	●	●	●

Tier Option	Key drivers of the assessment		
A. Locally developed	**1. Tailored to NZ Tier 3 population**	**2. Ability to make continued refinements to ensure it is fit-for-purpose**	**3. Ongoing cost of locally developed standards**
B. IFRS for SMEs adapted	**1. Designed for for-profit entities**	**2. Requires substantial modification**	**3. Licence agreements limits simplification**

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

Tier 3 – Not-for-profit PBEs: Assessment of framework options

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

Tier 3 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 62 pages	🟢	🟢	N/A	🟢	🟠	🟢	🟠	🟠
B. Australia Tier 3 approx. 110 pages	🟢	🟠	N/A	🔴	🔴	🔴	🟠	🟠
C. INPAS	🟢	🔴	N/A	🔴	🔴	🔴	🟠	🟠

Tier Option	Key drivers of the assessment		
A. Locally developed	**1. Tailored to NZ Tier 3 population**	**2. Ability to make continued refinements to ensure it is fit-for-purpose**	**3. Ongoing cost of locally developed standards**
B. Australia Tier 3 NFP framework	**1. Not locally relevant to NZ Tier 3; likely more complex**	**2. Disruption to ecosystem**	**3. Reduces XRB control over future development**
C. INPAS	**1. More complex; not locally relevant to NZ Tier 3**	**2. Disruption to ecosystem**	**3. Reduces XRB control over future development**

- 🟢 Strong fit / low concern
- 🟠 Mixed fit / trade-off concerns
- 🔴 Significant trade-off concerns

Tier 4 – Public Sector PBEs: Assessment of framework options

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

Tier 4 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 18 pages	🟠	🟢	N/A	🟢	🟠	🟢	🟢	🟠
B. IPSAS cash basis approx. 80 pages	🟠	🟠	N/A	🟠	🔴	🟠	🟠	🟠

Tier Option	Key drivers of the assessment		
A. Locally developed	**1. Tailored to NZ Tier 4 population**	**2. Ability to make continued refinements to ensure it is fit-for-purpose**	**3. Ongoing cost of a short locally developed standard**
B. IPSAS cash basis	**1. International credibility and aligns with local policy settings for cash reporting**	**2. Designed as a transitional framework, not a fundamentally different approach**	**3. Increased complexity and disruption to ecosystem**

- 🟢 Strong fit / low concern
- 🟠 Mixed fit / trade-off concerns
- 🔴 Significant trade-off concerns

Tier 4 – Not-for-profit PBEs: Assessment of framework options

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

Tier 4 Option	Technical fitness	Simplification	International alignment	Local relevance	Ecosystem	Transition costs	Ongoing costs	Move between tiers
A. Locally developed 18 pages	🟠	🟢	N/A	🟢	🟠	🟢	🟢	🟠
B. IPSAS cash basis approx. 80 pages	🟠	🟠	N/A	🟠	🔴	🟠	🟠	🟠

Tier Option	Key drivers of the assessment		
A. Locally developed	**1. Tailored to NZ Tier 4 population**	**2. Ability to make continued refinements to ensure it is fit-for-purpose**	**3. Ongoing cost of a short locally developed standard**
B. IPSAS cash basis	**1. International credibility and aligns with local policy settings for cash reporting**	**2. Designed as a transitional framework, not a fundamentally different approach**	**3. Increased complexity and disruption to ecosystem**

- 🟢 Strong fit / low concern
- 🟠 Mixed fit / trade-off concerns
- 🔴 Significant trade-off concerns

Preliminary observations from the assessment

Observations

- Alternative frameworks generally involved trade-offs relating to local relevance, ecosystem impacts, transition costs and framework coherence.
- The assessment did not indicate that alternative frameworks would provide clearer, simpler or more proportionate reporting outcomes for the Tier 3 and Tier 4 populations.
- The current framework reflects a decade of implementation experience, stakeholder feedback and recent redevelopment.
- Alternative frameworks would likely require local adaptation, guidance and implementation support before they could operate effectively within the New Zealand environment.

What this suggests

- Preliminary assessment supports continued use and refinement of the current framework rather than replacement with an alternative.

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Have your say

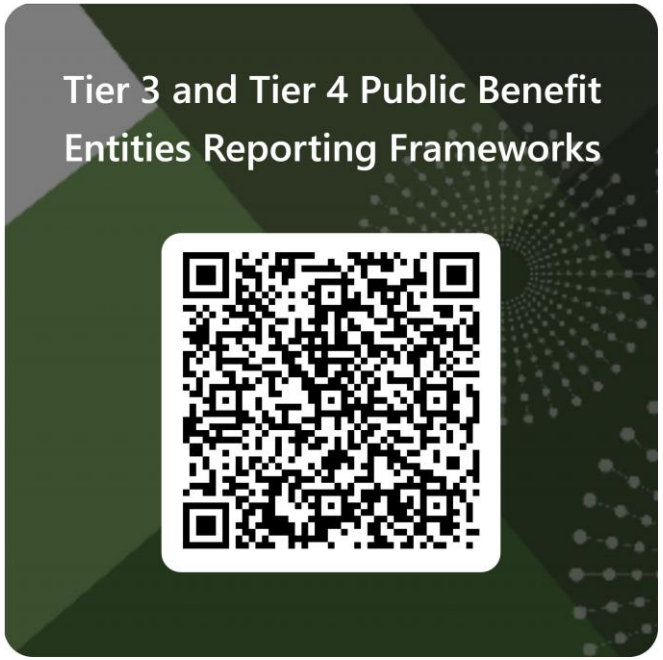
We welcome your feedback as we develop our thinking on the future of New Zealand's Accounting Standards Framework.

Let us know if our analysis is complete or whether there are additional challenges, opportunities, or perspectives we should consider.

Your input will help inform the development of the Discussion Paper.

Scan the QR code

Provide feedback on this topic and help inform the development of the Discussion Paper.



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Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	12 October 2026
Subject:	**Accounting Standards Framework review: Supplementary memo on the treatment of voluntary Tier 2 for-profit reporters**
Date:	1 October 2026
Prepared by:	Raveen Kaur
Through:	Nimash Bhikha; Michelle Lombaard

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

Purpose

1. This paper responds to the Board's feedback at its August 2026 meeting on how entities that voluntarily apply Tier 2 for-profit reporting requirements should be treated in the Accounting Standards Framework (**ASF**) review. It asks the Board to provide **FEEDBACK** on the proposed revised wording for the public discussion paper.

Recommendations

2. We recommend the Board:

   (a) **NOTE** that feedback from voluntary Tier 2 reporters will be welcomed and considered as evidence in the ASF review; and

   (b) **PROVIDE FEEDBACK** on the proposed discussion paper wording outlined in blue text within this paper.

Board feedback from August 2026

3. The **Entities that voluntarily apply Tier 2 reporting requirements paper** presented at the August 2026 NZASB meeting explained that the Tier 2 fit-for-purpose framework assessment focuses on mandated Tier 2 for-profit entities.

4. Voluntary Tier 2 for-profit reporters were acknowledged as part of the wider reporting population but were not included in the core assessment because their use of NZ IFRS RDR reflects a choice to apply that framework rather than a legislative requirement, and they have other reporting options available, such as special purpose financial reporting.

5. The Board's discussion indicated support for mandated Tier 2 entities remaining the primary population for the framework assessment. However, there were concerns that the proposed messaging could create the perception that feedback from voluntary Tier 2 reporters would be discounted.

6. The Board noted that voluntary use of the Tier 2 for-profit framework can support better governance, accountability and reporting quality, and that voluntary reporters may provide useful evidence about how the framework operates in practice.

7. The Board also asked staff to seek evidence about why entities that are not required to prepare GAAP-compliant financial statements nevertheless choose to apply Tier 2 for-profit reporting requirements. . The ASF website surveys already provide a route for gathering this information. The discussion paper should make the purpose of that evidence gathering clear and invite voluntary Tier 2 reporters to respond.

Proposed treatment of voluntary Tier 2 feedback

8. We propose distinguishing between the population used to assess the design of Tier 2 and the wider population from which evidence is sought. Mandated Tier 2 entities and their users remain the main focus because those entities must prepare GAAP financial statements, and the ASF sets the Tier 2 requirements designed for them. Voluntary reporters remain part of the evidence population because their experience may identify benefits, costs and implementation issues relevant to the review.

9. We will consider how consultation responses can identify whether the respondent is a mandated or voluntary reporter. Staff can then analyse the feedback in its reporting context and identify issues that occur across both populations. Separating responses by reporting context allows the Board to interpret the evidence without treating different circumstances as equivalent, including in relation to the users of those entities. It does not mean feedback from voluntary reporters will be discounted solely because it comes from voluntary reporters.

10. An issue raised by voluntary Tier 2 reporters, may support a conclusion about the Tier 2 framework where the evidence shows that it also affects the mandated reporters or their users too. Where an issue is raised mainly by voluntary reporters, staff would consider whether it points to a broader issue for mandated reporters, or to a different need that may be addressed through XRB communications, education or future work.

Consultation approach

11. To manage the number of consultation questions, we propose including one targeted prompt for voluntary Tier 2 reporters alongside the existing Tier 2 questions, rather than adding a separate headline question. The website survey should also ask whether the entity is required to report under GAAP, which framework it applies, and why it selected that framework. This will allow responses about voluntary financial reporting generally to be distinguished from voluntary application of NZ IFRS RDR.

12. The consultation questions should cover the factors that influenced the decision to apply Tier 2, the benefits realised, the costs or practical challenges experienced, and the alternatives considered. Possible reasons may include governance or accountability, lender or contractual requirements, shareholder or investor needs, group reporting, comparability, assurance, anticipated growth, or preparation for future reporting obligations.

Proposed discussion paper wording

13. We propose replacing the wording presented in the August 2026 Board meeting paper with the following blue text. The revised wording keeps the assessment focused on mandated Tier 2 entities, while expressly welcoming evidence from voluntary reporters and explaining how it will be used. The proposed text may be refined during final drafting of the discussion paper to ensure overall coherence and flow.

14. Appendix A reproduces the relevant extract from the August 2026 Board paper and compares it with the revised approach proposed in this supplementary memo.

Who this Tier 2 for-profit framework assessment focuses on

The primary focus of this assessment is on mandated Tier 2 for-profit entities and their stakeholders. This is because Tier 2 for-profit entities are required by legislation to prepare generally accepted accounting practice (GAAP) compliant financial statements. Accordingly, their experiences and information needs, together with their stakeholders, are particularly relevant when evaluating whether Tier 2 remains fit for purpose and meets user needs.

An entity may report under Tier 2 when legislation requires it to prepare generally accepted accounting practice (GAAP) compliant financial statements, and it meets the Tier 2 for-profit criteria.

We are aware many non-mandated entities may choose to apply XRB reporting standards (primarily International Financial Reporting Standards with Reduced Disclosure Requirements (NZ IFRS RDR)) to support governance, satisfy lender or shareholder requirements, meet group reporting obligations, or address other user information needs.

The XRB welcomes feedback from these voluntary Tier 2 reporters, along with their stakeholders, as their experiences will contribute to our understanding of how the framework is used in practice. We are particularly interested in understanding the benefits they obtain from the framework, along with any implementation costs, practical challenges, or areas where improvements could be made. These insights may also help inform future ASF decisions.

The reporting circumstances of respondents will be taken into account as part of the evaluation of feedback.

Question for voluntary Tier 2 reporters

- ***What factors influenced your entity's decision to apply XRB reporting standards (including NZ IFRS RDR), and what benefits and challenges have you experienced through this choice?***

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, in light of the Board's comments in its August meeting?

Q2. Does the Board have any **FEEDBACK** on the proposed wording and questions 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 A

Extract from the August 2026 Board paper

This appendix sets out the wording presented to the Board in August 2026 and compares it with the revised approach proposed in this supplementary memo. It is included so the Board can see the change in treatment without needing to refer back to the August paper.

Previous wording presented in the August 2026 paper

Extract from August 2026 paper
" 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. "*

Comparison with revised approach proposed in this supplementary memo

Issue	August 2026 wording	Revised approach
Status of voluntary Tier 2 reporters	Considered as contextual information only.	Recognised as part of the evidence population whose feedback will be welcomed and considered.
Primary assessment population	Assessment focused on entities mandated to report under the ASF.	Emphasises that the primary policy focus of the review remains on mandated Tier 2 entities, while avoiding any impression that voluntary reporter feedback is less important or will be discounted.
Purpose of feedback from voluntary reporters	Not expressly explained beyond contextual consideration.	Feedback will help identify why entities choose NZ IFRS RDR, the benefits realised, costs or practical challenges experienced, and whether issues also affect mandated reporters or their users.
Message to voluntary reporters	Could be read as implying their feedback would not influence the review.	Makes clear that voluntary reporter feedback is not discounted but will be analysed having regard to the respondent's reporting context.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	12 October 2026
Subject:	**Supplementary memo to mixed group issues: Application to post settlement governance entities, and other Māori asset governance entities**
Date:	1 October 2026
Prepared by:	Alex Stainer
Through:	Nimash Bhikha, Michelle Lombaard
Copy:	Sheree Ryan

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

Purpose

1. The purpose of this memo is to:
   - **OUTLINE** and reemphasise the relevance of mixed group issues to Māori asset governance entities including post settlement governance entities (**PSGEs**), and
   - **PROPOSE** additional framing for the Discussion Paper to more clearly identify the types of entities and structures that may experience mixed group issues and to ensure consultation adequately targets feedback from affected stakeholders.

Recommendations

2. Staff recommend that the Board:
   (a) **NOTE** the relevance of mixed group issues to Māori asset governance entities including PSGEs as outlined in this memo; and
   (b) **PROVIDE FEEDBACK** on the direction of the proposed additional framing for inclusion in the mixed groups section of the Discussion Paper.

Background

3. At the August 2026 NZASB meeting, during discussion of the mixed groups analysis, Board feedback indicated that:
   (a) the original paper did not sufficiently identify or explain how mixed-group issues may arise within PSGEs and other Māori asset-governance groups, particularly from an assurance perspective; and
   (b) the initial draft Discussion Paper wording did not clearly identify PSGEs and Māori asset-governance entities as reporting groups that may experience mixed-group reporting issues, and from which feedback would be important.

4. In response to this feedback, staff noted that a supplementary paper could be prepared to further explain the relevance of mixed-group issues to Māori asset-governance entities and propose additional framing for the Discussion Paper.

Nature of PSGEs and other Māori asset governance entities

5. Māori asset-governance groups often operate within governance arrangements established through Treaty settlement legislation, trust deeds, iwi constitutions and charitable purposes. These entities often operate through group structures that pursue a combination of cultural, social, environmental and commercial objectives, and often include charitable entities, trusts, nominee entities, trading subsidiaries and other controlled investment entities. These arrangements may impose different accountability expectations across entities within the same group and influence the form and content of financial reporting

6. Many Māori entities manage assets on behalf of current and future generations. As a result, reporting is often expected to demonstrate not only financial performance, but also the protection, growth and sustainability of assets held for future beneficiaries. This can increase demand for information beyond that traditionally provided in financial statements and cause challenges with current financial reporting frameworks.

7. It is also common for Māori groups to hold commercial investments alongside entities established to advance cultural revitalisation, education, environmental restoration, social development and other kaupapa Māori objectives. These differing purposes can result in significantly different reporting requirements and information needs across the group.

8. In addition, Māori asset-governance entities commonly operate within governance and accountability arrangements that reflect intergenerational stewardship responsibilities and obligations to whānau, hapū and iwi. Many groups hold and manage a diverse range of assets, including commercial investments, settlement assets, whenua and other culturally significant assets, while simultaneously pursuing economic, cultural, social and environmental outcomes. Stakeholders often expect reporting to provide insight into both financial performance and broader outcomes achieved[1]. These characteristics can increase the complexity of financial reporting and further amplify the practical challenges associated with mixed-group structures.

Mixed group issues are common

9. As a result of the variety of different activities undertaken, different entities within a group may have different purposes, with some entities being classified as for-profit and others classified as public benefit entities (PBEs). Differences in reporting frameworks may also arise because entities vary in size and may be subject to different financial reporting obligations under legislation or founding documents. Therefore, entities within these groups can often apply different reporting frameworks, which result in challenges associated with underlying reporting requirements, consolidation processes, assurance, and user interpretation.

10. In some cases, the complexity of these challenges may be further compounded by the nature and diversity of the assets, activities and arrangements commonly found within Māori asset-governance entities. For example, it is common for groups to hold a mix of heritage and cultural, mixed-purpose and commercial assets, for entities within the group to have differing tax statuses, and for arrangements to reflect both commercial and social objectives.

[1] Some entities may choose to communicate intergenerational impacts through other reporting approaches, such as He Tauira, which is a voluntary conceptual reporting framework issued by the XRB.

11. Māori entities also frequently hold assets that may not be commonly found in other reporting groups, including whenua, taonga, customary rights, fisheries settlement assets, forestry interests and collectively held cultural assets. The nature of these assets can give rise to additional accounting, valuation and disclosure considerations.

12. These factors often have implications for financial reporting and increase the complexity involved with consolidation and assurance. Furthermore, group reporting is often subject to a high level of stakeholder scrutiny, with users interested in both the financial performance and broader outcomes achieved by these groups. As a result, the understandability and transparency of reporting is particularly important given the range of activities and objectives represented within the group.

13. These underlying drivers result in many of the same issues identified in the original mixed-groups analysis, including the need to align accounting policies, obtain additional group-level information, prepare consolidation adjustments, and undertake additional assurance procedures. PSGEs and other Māori asset-governance entities therefore represent a significant and important example of reporting groups in which mixed-group issues commonly arise and may be particularly pronounced or disproportionately significant and material.

Discussion Paper

14. Following Board feedback, staff consider that the draft mixed groups extract should more clearly identify the types of entities and reporting groups that may experience mixed-group reporting issues.

15. Staff propose amending the draft mixed groups extract for the Discussion Paper by:

    (a) more clearly signalling that mixed-group issues may arise in a range of reporting groups; and

    (b) explicitly identifying post-settlement governance entities (PSGEs) and Māori asset-governance entities as examples of groups that may experience mixed-group reporting issues.

16. These amendments should improve the visibility and relevance of the mixed group discussion for Māori asset governance entities and other affected stakeholders.

17. The proposed addition to the excerpt is shown below. For the full excerpt see the Appendix A. The proposed text may be refined during final drafting of the discussion paper to ensure overall coherence and flow.

> **Examples of mixed groups**
>
> *Mixed-group reporting issues can arise in a wide range of reporting groups. They often arise where a reporting group undertakes a range of commercial and non-commercial activities through different entities established for different purposes.*
>
> *Common examples of mixed groups include Māori asset-governance reporting groups, including post-settlement governance entities (PSGEs), charitable groups with trading subsidiaries, for-profit companies with registered charity subsidiaries, councils with council-controlled organisations undertaking commercial activities, and groups where entities are subject to different statutory reporting requirements.*
>
> *For Māori asset-governance entities, these challenges can be particularly pronounced. Many PSGEs and iwi groups operate through structures established to support intergenerational stewardship of settlement assets and to deliver cultural, social, environmental and economic outcomes for whānau, hapū and iwi. These structures often include charitable entities and*

trusts alongside commercial investment companies and other controlled entities with differing purposes and reporting obligations.

These reporting groups may contain a mix of for-profit and public benefit entities, entities applying different reporting tiers, or entities subject to different statutory or other reporting obligations. As a result, different reporting frameworks or accounting requirements may apply across the group and lead to challenges in consolidation, assurance and user understanding.

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on staff's observations regarding the relevance of mixed-group issues to PSGEs and other Māori asset-governance entities?

Q2. Does the Board have any **FEEDBACK** on the proposed additional framing for Mixed Groups for inclusion in the Discussion paper?

Appendix A

Extract 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.

Examples of mixed groups

Mixed-group reporting issues can arise in a wide range of reporting groups. They often arise where a reporting group undertakes a range of commercial and non-commercial activities through different entities established for different purposes. Common examples of mixed groups include Māori asset-governance reporting groups, including post-settlement governance entities (PSGEs), charitable groups with trading subsidiaries, for-profit companies with registered charity subsidiaries, councils with council-controlled organisations undertaking commercial activities, and groups where entities are subject to different statutory reporting requirements.

For Māori asset-governance entities, these challenges can be particularly pronounced. Many PSGEs and iwi groups operate through structures established to support intergenerational stewardship of settlement assets and to deliver cultural, social, environmental and economic outcomes for whānau, hapū and iwi. These structures often include charitable entities and trusts alongside commercial investment companies and other controlled entities with differing purposes and reporting obligations.

These reporting groups may contain a mix of for-profit and public benefit entities, entities applying different reporting tiers, or entities subject to different statutory or other reporting obligations. As a result, different reporting frameworks or accounting requirements may apply across the group and lead to challenges in consolidation, assurance and user understanding.

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.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	12 October 2026
Subject:	**PBE Revenue and Transfer Expenses: Update on the mandatory date**
Date:	1 October 2026
Prepared by:	Carly Berry
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose and introduction

1. In this agenda item, we are seeking the Board's approval to delay the mandatory date for the proposed PBE IPSAS 47 *Revenue* and PBE IPSAS 48 *Transfer Expenses* beyond 1 January 2029.

Recommendation

2. We recommend that the Board **AGREE NOT** to set the mandatory date for the proposed standards on 1 January 2029 or earlier.

Basis for this recommendation

3. We proposed the original mandatory date of 1 January 2029 to give entities just over two years to prepare for the first reporting period under the new standards. We based this timeframe on an estimated issue date sometime in Q3 2026. The extent of the feedback received on these consultations have delayed the potential publication date for the proposed standards to H1 2027 at the earliest. The original mandatory date is therefore no longer appropriate, especially since the feedback considered by the Board so far supports an extended lead time between the issue of the standards and the mandatory date. (Refer to the appendix to this memo for a reminder of Board decisions made on the feedback to date).

4. At this stage of the project, we are not asking the Board to agree to a new mandatory date. We will recommend a new mandatory date once all the technical analysis of the feedback is complete. However, we think it is beneficial to make it clear to stakeholders now that we do not plan to keep the original proposed mandatory date. This is because we engage with stakeholders in both PBE sectors on a regular basis and there have been questions about the interaction of the proposed mandatory date for these standards with other potential future standards (such as PBE IPSAS 43 *Leases*).

Question for the Board:

Q1. Does the Board **AGREE** that PBE IPSAS 47 and PBE IPSAS 48 will **NOT** have a mandatory date of 1 January 2029 or earlier?

Appendix: Summary of Board decisions to date on the analysis of feedback received on ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses*

Note: all Board decisions so far relate to recommended actions to address the feedback received on the binding arrangement principle (other than the decision to submit certain matters to the IPSASB Application Group)

Meeting	Outcome	Staff action
June 2026	The Board **AGREED** to **take no further action** with respect to:	
	• providing examples on potential intragroup challenges	No action required
	• providing an example whereby the transfer provider has an enforceable right but not an enforceable obligation.	No action required
	The Board **AGREED** to **provide adoption and implementation support**[1] to:	
	• To assist entities on the thought process to follow for the five-step revenue recognition model for binding arrangements.	Adoption and implementation support to be provided
	The Board **AGREED** to **include the following matters within the adoption and implementation support for other matters** agreed by the Board in April 2026:	
	• General observations on implementation challenges relating to the binding arrangement principle (including those relating to Tier 2 NFPs in particular).	Adoption and implementation support to be provided
	• General observations and challenges relating to contracting practices.	
	• Consideration of whether the same (or similar) enforcement mechanisms apply across all arrangements, whether material or not, as this could help to ease the implementation and ongoing costs of the binding arrangement assessment.	
	• Highlighting the guidance in paragraphs AG22 – AG23 in the revenue ED and paragraphs AG23 – AG24 in the transfer expenses ED (relating to future funding).	

[1] Note: the Board did not agree to provide a ***specific type*** of adoption and implementation support. We (as the staff) will consider how best to provide this support.

Meeting	Outcome	Staff action
	• Considering whether a checklist or flowchart, setting out the considerations when making a binding arrangement assessment, should be developed.	
	The Board **AGREED** to amend paragraph 5 in the transfer expenses ED (as shown in agenda item 8.1a at the June 2026 meeting), to clarify the scope of the ED as it relates to binding arrangements.	Amendment to paragraph 5 to be inserted into the final PBE IPSAS 48 ahead of publication
	The Board **AGREED** to address the following matters **through the relocation of IG paragraph B.2 in both EDs**, as agreed by the Board in April 2026:	
	• The request to add an additional fact pattern to Example 1 in the revenue ED, to depict the scenario where there is specific reporting to the Government, but no specified time period	No further action required
	• The request for guidance on whether an arrangement is binding when the resource recipient has no enforceable obligation (or the enforceable obligation is not enforced by the resource provider).	
	The Board **AGREED** to review the illustrative examples in both EDs, to determine whether and how to make them more New Zealand-specific. This review would include consideration of whether Example 1 in the revenue ED should be adapted for the transfer provider's perspective and included in the transfer expenses ED.	Review to be performed and proposed amendments (if any) to be presented for Board approval at a future meeting
	The Board **AGREED** with the proposed relocation of IG paragraph B.2 (now paragraph AG25.1) and the proposed drafting of paragraph AG25.1 for both proposed standards.	Paragraph AG25.1 to be inserted into the final PBE IPSAS 47 and PBE IPSAS 48 ahead of publication
	The Board **AGREED** to refer the following matters to the IPSASB Application Group: • Boundaries of applying IPSAS 41 by analogy to non-contractual receivables • Tax revenue – Subsequent measurement of estimated tax receivables • Tax revenue – Variable consideration constraint	IAG submission was made on 18 June 2026

Meeting	Outcome	Staff action
	• Tax revenue – Time-value of money	
	The Board **AGREED NOT** to refer the following matters to the IPSASB Application Group: • Assessing and evidencing progress towards satisfaction of the transfer recipient's obligations in transfer expense transactions with binding arrangements • Potential inconsistencies in IPSASB literature relating to services provided to communities by central and local governments • Presentation of transfer expenses relating to services in the statement of financial performance • Application of the binding arrangement principle to high-volume, low-value transactions • Rate-regulated activities	No action required
April 2026	The Board **AGREED** to **take no further action** with respect to:	
	• the concept of a binding arrangement (defined in the EDs) being the fundamental principle underpinning the accounting for revenue and transfer expenses	No action required
	• providing guidance on what the rights and obligations would be in a transaction involving ticket sales for a charity event (and whether this transaction involves a binding arrangement)	
	The Board **AGREED** to **provide adoption and implementation support**[2] to:	
	• assist stakeholder with the challenges relating to the practical application of the binding arrangement principle	Adoption and implementation support to be provided
	• assist both entities' and auditors' understanding of 'enforceability', particularly by clarifying the roles of rights, obligations and remedies in the arrangement, through highlighting the relevant guidance in the EDs	
	• highlight that disclosure of significant judgements relating to enforceability assessments is covered by ED PBE IPSAS 48 paragraph 61 (if related to transfer right assets) and paragraph 137 in PBE IPSAS 1 *Presentation of Financial Reports*	
	• highlight that the binding arrangement definition in PBE IPSAS 47 and PBE IPSAS 48 is for the purposes of those standards only	

[2] Note: the Board did not agree to provide a ***specific type*** of adoption and implementation support. We (as the staff) will consider how best to provide this support.

Meeting	Outcome	Staff action
	• highlight that enforceability may arise from various mechanisms and an entity needs to use judgement and objectively assess all relevant factors, especially in scenarios where delivery timeframes are not specified or where consequences are not being enforced	
	• assist with concerns about the placement of paragraph 56 in the revenue ED and potentially different accounting treatments for economically similar enforceable obligations	
	• assist entities with how to support their binding arrangement assessments to their auditors in situations where terms are oral or implied (through facilitation of discussions between stakeholders)	
	The Board **AGREED** to move Implementation Guidance (IG) paragraph B.2 (in both EDs) to the Application Guidance (AG) section of the EDs.	See relevant Board decision at the June 2026 meeting
	The Board **AGREED** to amend paragraph AG12 in both EDs, to provide New Zealand-specific examples of 'equivalent means' enforcement mechanisms.	Draft the additional wording for paragraph AG12 for Board approval at a future meeting

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members and NZAuASB members
Meeting date:	October 2026
Subject:	**Application of the modified audit reports policy**
Date:	30 September 2026
Prepared by:	Bruce Mcniven and Raveen Kaur
Through:	Michelle Lombaard; Misha Pieters

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

Purpose

1. The purpose of this paper is to inform the NZASB and NZAuASB (the Boards) of the modified audit and assurance reports received in the 12-month period from 1 October 2025 to 30 September 2026 and to consider whether there are any implications for the accounting standards or the auditing and assurance standards.

2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993, the Financial Markets Conduct (**FMC**) Act 2013[1] and the Incorporated Societies Act 2022. The FMC Act[2] also requires modified assurance reports of mandatory GHG emissions disclosures and climate statements to be sent to the XRB (and other specified parties).

3. As discussed last year, we have been working on updating the 2016 policy. The latest draft version is attached in the supplementary pack (subject to approval by the XRB board) along with the 2016 policy. The latest policy does not change the conclusions or decisions that we are requesting from the boards.

Recommendations

4. We recommend that, based on the modified audit reports received in the 12-months from 1 October 2025 to 30 September 2026:

   (a) The NZASB Board **AGREES** that there are no current implications for the accounting standards.

   (b) The NZAuASB Board **AGREES** that there are no current implications for the auditing and assurance standards.

[1] Our legislative mandate does not extend to reviewing modified audit reports for Public Sector Entities and Charities.
[2] Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021, these reports are considered separately as indicated in par. 8 of this memo.

Background

5. The Companies Act 1993[3], Incorporated Societies Act 2022[4] and the FMC Act 2013[5] require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with. No such requirements exist under the current Modified Audit Reports Policy for public entities or charities to submit modified audit reports to the XRB.

6. The current Modified Audit Reports Policy (the "Policy", dated 2016) sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports. The Policy also applies when modified audit reports are referred to the XRB by any other party.

7. The key aspects of the Policy in respect to the Boards' review in respect of financial statements are as follows:

   (a) For the NZASB – focus on modified audit opinions in relation to material misstatements in the financial statements.

   (b) For the NZAuASB – focus on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.

   (c) For both Boards – consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant standards.

8. The SRB is being advised separately that no modified assurance reports relating to mandatory climate statements or greenhouse gas (GHG) emissions disclosures were received during the review period.

9. No action needs to be taken by the Boards if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

10. During the review period from 1 October 2025 to 30 September 2026, we received seven modified audit reports under the Companies Act 1993 and the Financial Markets Conduct Act 2013. We did not receive any modified audit reports relating to incorporated societies that fall within the scope of our policy. We received two modified audit reports voluntarily from auditors of incorporated societies, despite the entities falling below the expenditure threshold requiring submission under our policy. The reports were nevertheless reviewed separately to identify any emerging reporting or assurance issues. No issues were noted[6]. The implementation of the Incorporated Societies Act 2022 has expanded the population of entities required to prepare financial statements in accordance with XRB accounting standards. As incorporated societies transition to the new reporting requirements, the XRB may receive an increased number of modified audit reports, particularly where entities encounter first-time adoption challenges or limitations in historical accounting records. These are expected to become more apparent in

[3] Section 207C
[4] Section 107
[5] Section 461G
[6] One report was a qualified opinion over cash revenue. The other was a disclaimer of opinion because of insufficient audit evidence over member-related revenue, conference revenue and significant activities reported in the statement of service performance.

the next review cycle and XRB will closely monitor this to identify whether any standard setting activities are required.

11. Any modified audit reports received by the XRB that fall outside the scope of the current modified audit reports policy will be monitored separately. The XRB also maintains ongoing engagement with the Registrar of Incorporated Societies, administered through the Companies Office within the Ministry of Business, Innovation and Employment (MBIE), on matters relating to the new reporting regime.

12. Because this agenda paper will be sent to the Board before 30 September, we will provide a verbal update to the boards if there are any reports received between the date of this memo and 30 September.

13. Based on a period end of 30 September, we have provided below the statistics on the audit reports received by quarter over the past 4 years:

Quarter received	**OCT-DEC**	**JAN-MAR**	**APR-JUN**	**JUL-SEP**	**TOTAL**
Period	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Oct 2025 - Sep 2026	5	0	1	1	**7**
Oct 2024 - Sep 2025	1	3	5	3	**12**
Oct 2023 - Sep 2024	4	1	4	2	**11**
Oct 2022 - Sep 2023	8	2	4	5	**19**
TOTAL	**18**	**6**	**14**	**11**	**49**

14. Further analysis follows:

Act report is received under	**Under section 461G(2) of the Financial Markets Conduct Act 2013**	**Under section 207C of the Companies Act 1993**	**Under section 107 of the Incorporated Societies Act 2022**	**TOTAL**
Oct 2025 – Sep 2026	4	3	0[7]	**7**
Oct 2024 – Sep 2025	7	5	N/A	**12**
Oct 2023 – Sep 2024	3	8	N/A	**11**
Oct 2022 – Sep 2023[8]	2	17	N/A	**19**
TOTAL	**16**	**33**	**0**	**49**

15. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website.

16. As in the previous year we have worked with the FMA and the Companies Office, including Incorporated Societies registrar, to share information on modified audit reports received, to ensure that we have a complete set of modified audit reports (as some entities may submit to the regulator and/or Companies Office and not the XRB even though there is a legal requirement to do so).

17. Appendix A provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.

[7] The 2 received for Incorporated Societies are under the reporting threshold and therefore were not required to be submitted to us under the Act. This is explained in para. 10., above.
[8] We aligned our reporting period with year-end 30 September from 1 October 2022

18. Appendix B provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from the Accounting Team and the Assurance Team. In all cases the proposed action is 'None', as we have not identified any modified audit reports that indicate an issue with the accounting standards or the auditing and assurance standards.

Current review period observations

19. In the current review period, of the 7 modified audit reports received:

    (a) There was one adverse opinion, relating to going concern. NZ IAS 1 paragraphs 25–26 require management to assess the entity's ability to continue as a going concern, considering all available information for at least 12 months from the reporting date. The adverse opinion arose because the entity's incorrect application of the standard and not due to an issue in the accounting standard.

    (b) There were three disclaimer opinions, relating to going concern uncertainties, and impairment assessments.

    (c) There were three qualified opinions, covering biological assets, investments in associates, financial instrument valuation and related matters.

    (d) Five of the modified audit reports received in the current review period relate to entities that also received modified audit reports in previous years. The recurring matters are largely entity-specific and relate to similar underlying issues, including going concern, insufficient audit evidence over accounting records, impairment or recoverability assessments, and valuation evidence. Staff have considered these recurring matters and have not identified evidence that they indicate a deficiency in the accounting standards or the auditing and assurance standards.

No current implications for the accounting standards

20. The Accounting Team's review has not identified any current implications for the accounting standards from the modified audit reports received from 1 October 2025 to 30 September 2026. The dominant pattern across the audit reports is insufficient audit evidence, weak accounting records or controls, and entity-specific challenges in applying existing requirements, rather than concerns with the requirements in the accounting standards themselves.

21. The Accounting Team did however highlight the need to closely monitor the application of the accounting standards by Incorporated Societies during this transition period.

No implications for the auditing and assurance standards

22. The Assurance Team's review has not identified any current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2025 to 30 September 2026.

Question for the NZASB Board

Q1A. Does the NZASB Board **AGREE** that there are no current implications for the accounting standards from the modified audit reports received from 1 October 2025 to 30 September 2026?

Question for the NZAuASB Board

Q1B. Does the NZAuASB Board **AGREE** that there are no current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2025 to 30 September 2026?

Attachments

- Modified audit reports policy, 2016
- Draft modified audit reports policy, 2025

Appendix A

Summary of modified audit reports received

The table below displays the types of modified audit reports received across the following four review periods:

A: 1 October 2025 to 30 September 2026
B: 1 October 2024 to 30 September 2025
C: 1 October 2023 to 30 September 2024
D: 1 October 2022 to 30 September 2023

Modification in relation to:	Adverse opinion				Disclaimer of opinion				Qualified opinion				Total
	Financial statements are materially misstated				Unable to obtain sufficient appropriate audit evidence				Unable to obtain sufficient appropriate audit evidence				
Review period:	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**	
Service Performance Information	–	–	–	–	–	–	–	–	–	1	1	1	**3**
Accounting records	–	–	–	–	–	2	–	–	–	–	–	–	**2**
Opening balances - unaudited	–	–	–	–	–	–	–	1	–	–	1	–	**2**
Going concern	1	1	–	–	2	2	2	2	–	–	–	–	**10**
Valuation of inventory, or WIP including Opening balances - inventory	–	–	–	–	–	–	–	1	1	–	3	5	**10**
Valuation of assets (including impairment assessments): property, plant and equipment, investment property and right-of-use assets	–	–	–	–	2	–	–	–	–	2	3	5	**12**

Carrying amount of goodwill and other indefinite life intangibles	–	–	–	–	1	–	–	–	–	1	1	–	**3**
Valuation of a bank guarantee	–	–	–	–	–	–	–	–	1	–	–	–	**1**
Valuation of biological assets or forestry assets	–	–	–	–	–	–	–	–	1	2	1	1	**5**
Valuation of taxation balance	–	–	–	–	–	–	–	1	–	–	–	–	**1**
Valuation of related party advances	–	–	–	–	–	–	–	–	–	1	–	–	**1**
Valuation of cash-generating unit (division)	–	–	–	–	1	1	–	1	–	–	–	–	**3**
Valuation of investments including in associates and joint ventures, business combination and shares	–	–	–	–	–	–	–	4	1	–	1	4	**10**
Revenue and accrued revenue recognition	–	–	–	–	–	–	1	–	–	1	–	–	**2**
Sub-total	**1**	**1**	**–**	**–**	**6**	**5**	**3**	**10**	**4**	**8**	**11**	**16**	
Total									**11**[9]	**14**[10]	**14**[11]	**26**[12]	**65**

[9] 7 audit reports received in this period, but in four instances (#498, #501, #503, #508) there is more than one reason for the modification.
[10] 12 audit reports received in this period, but in one instance (#496) there is more than one reason for the modification.
[11] 11 audit reports received in the period, but in three instances (#468, #471, and #480) there is more than one reason for the modification.
[12] 19 audit reports received in the period, but in three instances (#456, #462, and #464) there is more than one reason for the modification.

Appendix B

Modified audit reports received in the review period

This is a high-level summary of the modified audit reports that we have received.

#	Ref[13]	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
1.	**498**	**Pharmaceutical products** BD: 30-Jun-25 AR: 29-Sep-25	**Disclaimer of opinion** Insufficient audit evidence over going concern and asset impairment. The auditor could not obtain adequate support for committed funding, forecasts, goodwill, PPE, right-of-use assets and assets held for sale.	NZ IAS 1 – going-concern assessment and basis of preparation NZ IAS 36 – impairment, including goodwill NZ IAS 16 – PPE NZ IFRS 16 – ROU assets NZ IFRS 5 – assets held for sale	**Yes** – same going concern issue as previous year. See 483.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
2.	**499**	**Financial asset investing** BD: 30-Jun-25 AR: 30-Oct-25	**Adverse opinion** Inappropriate use of going-concern basis. Subsequent to the balance date, the bank demanded repayment of the overdraft facility of the key trading subsidiary. The subsidiary did not have the resources to repay the facility and therefore, was placed into voluntary administration alongside other subsidiaries, meaning the going-concern basis was not appropriate.	NZ IAS 1 – going-concern assessment and basis of preparation NZ IAS 10 – Events after the reporting period	**Yes** – related going-concern issue also arose in 2023 due to uncertainty of impact on future cashflows of the group. See 471.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
3.	**501**	**Investment holdings entity** BD: 30-Jun-25	**Qualified opinion** Insufficient component-auditor evidence for the equity-accounted investment, including the investment balance, share of profit and share of other comprehensive income.	NZ IAS 28 – equity method for investments in associates and joint ventures	N/A – New this year	None. No issues identified	None. No issues identified

[13] Reference numbers 500 + 505 are not included in this Appendix. They relate to modified audit reports of incorporated societies – see para. 10, above, for more.

#	Ref[13]	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
		AR: 12-Nov-25		NZ IFRS 12 – consequential disclosures may be affected		with accounting standards.	with assurance standards.
4.	**502**	**Forage seed breeding, production and distribution** BD: 30-Jun-25 AR: 17-Dec-25	**Qualified opinion** Financial guarantee not fully recognised or measured under NZ IFRS 9. The auditor could not obtain reliable evidence for the guarantee's fair value.	NZ IFRS 9 – initial fair-value recognition and subsequent measurement of a financial guarantee contract NZ IAS 1 – presentation of the resulting liability	N/A – New this year	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
5.	**503**	**Food manufacturing and meat wholesaling** BD: 31-Dec-24 AR: 19-Dec-25	**Qualified opinion** Insufficient audit evidence over biological assets and related meat inventory. Spring-born cattle were omitted, and fair-value support was inadequate.	NZ IAS 41 – quantity and fair value less costs to sell of biological assets NZ IAS 2 – related meat inventory and cost movements	**Yes** – same NZ IAS 41 fair-value evidence issue as 2023.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
6.	**504**	**Mining** BD: 31-Mar-26 AR: 29-Jun-2026	**Disclaimer of opinion** Insufficient audit evidence over recoverability of the Talisman Mine cash-generating unit, including expected gold quantities, timing of recovery and forecast cash flows.	NZ IAS 36 – recoverable amount of the Talisman Mine cash-generating unit NZ IFRS 6 – exploration and evaluation assets NZ IAS 1 – significant judgements and estimation-uncertainty disclosures	**Yes** – same mine-CGU recoverability issue as 2025. See 492.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

#	Ref[13]	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
7.	**506/ 507/ 508**[14]	**Food, health and cosmetic products, and winery and vineyards** BD: 31-Mar-26 AR: 30-Jun-26	**Disclaimer of opinion** Insufficient audit evidence over going concern and right-of-use asset impairment, including shareholder funding, strategic cash-flow assumptions and recoverability of right-of-use assets.	NZ IAS 1 – going-concern basis and material-uncertainty assessment FRS-44 – going-concern disclosures NZ IAS 36 – impairment of assets; NZ IFRS 16 – ROU assets	**Yes** – going concern also arose in 2025; earlier records/control issue was different. See 493.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

[14] #506, #507 and #508 relate to the same entity being submissions of the same set of financial statements, therefore have been counted as one unique entry in the analysis.