Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Accounting Standards Board

MEETING PACK

for

NZASB meeting - 132 - Public

Tuesday, 24 November 2026

9:00 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

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AGENDA

NZASB MEETING - 132 - PUBLIC

Name:	New Zealand Accounting Standards Board
Date:	Tuesday, 24 November 2026
Time:	9:00 am to 4:45 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington

1. Non-public session

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

2. Non-public session

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

3. Non-public session

3.1 Non-public session — 10:00 am (20 min)

4. Break

4.1 Break — 10:20 am (15 min)

5. Accounting Standards Framework Review (PUBLIC SESSION)

5.1 Board memo – For-Profit Tiers and Thresholds — 10:35 am (90 min)

For Discussion

Supporting Documents:

5.1.a	For-profit tiers & thresholds detailed analysis.pdf	7
5.1.b	For-profit tiers and thresholds - discussion paper.pdf	43

5.2 Board memo – PBE Tiers and Thresholds

For Discussion

Supporting Documents:

5.2.a	Public sector tiers and thresholds detailed analysis - Nov 26 NZASB.pdf	47
5.2.b	NFP sector tiers and thresholds detailed analysis - Nov 26 NZASB.pdf	100
5.2.c	Board memo - PBE tiers and thresholds discussion paper excerpt.pdf	154

5.3 Board memo – Optionality of Frameworks

For Discussion

Supporting Documents:

5.3.a	Optionality.pdf	174

5.4 Board memo – Impact of AI and Technology

For Discussion

Supporting Documents:

5.4.a	Board memo - ASF Review - Use of artificial intelligence in applying accounting standards.pdf	183

6. Lunch

6.1 Break 12:05 pm (45 min)

7. PBE IPSAS 47 Revenue and PBE IPSAS 48 Transfer Expenses

7.1 Cover memo 12:50 pm (75 min)

For Decision

Links to EDs: ED PBE IPSAS 47 Revenue ; ED PBE IPSAS 48 Transfer Expenses

Supporting Documents:

7.1.a	Cover Memo - PBE Revenue and Transfer expenses.pdf	191

7.2 Board memo – Overview of the feedback received on the benefits and costs

For Decision

Supporting Documents:

7.2.a	Board memo - Overview of the feedback received on the benefits and costs.pdf	197

7.3 Board memo – Feedback analysis on the benefits of adopting the standards

For Decision

Supporting Documents:

7.3.a	Board memo - Feedback analysis on the benefits of adopting the proposed standards.pdf	202

7.4 Board memo – Feedback analysis on high volume, low value transactions

For Decision

Supporting Documents:

7.4.a Board Memo - Feedback analysis on high volume low value transactions.pdf 215

7.5 Board memo – Application of paragraph AG39 in ED PBE IPSAS 48

For Decision

Supporting Documents:

7.5.a Board Memo - Feedback analysis on the application of paragraph AG39 in ED PBE IPSAS 48.pdf 234

7.6 Board memo – Feedback analysis on other topics relating to cost

For Decision

Supporting Documents:

7.6.a Board Memo - Feedback analysis on other topics relating to cost.pdf 247

8. PBE IPSAS 47 Revenue

8.1 Cover memo 2:05 pm (60 min)

For Decision

Link to ED: ED PBE IPSAS 47 Revenue

Supporting Documents:

8.1.a Cover memo - Feedback analysis - revenue with and without binding arrangements.pdf 271

8.2 Board memo – feedback analysis – revenue without binding arrangements

For Decision

Supporting Documents:

8.2.a Board memo - Feedback analysis - Revenue without binding arrangements.pdf 275

8.3 Board memo – feedback analysis – revenue with binding arrangements

For Decision

Supporting Documents:

8.3.a Board memo - Feedback analysis - Revenue with binding arrangements.pdf 301

8.4 Board memo – feedback on other comments on the revenue accounting models

For Decision

Supporting Documents:

8.4.a Board memo - Feedback analysis - Other feedback on revenue with and without binding arrangements.pdf 318

9. Break

9.1 Break

3:05 pm (15 min)

10. PBE IPSAS 48 Transfer Expenses

10.1 Board memo - scope of PBE IPSAS 48 (LATE PAPER)

3:20 pm (60 min)

For Decision

Link to ED: ED PBE IPSAS 48 Transfer Expenses

10.2 Board memo – Feedback analysis on transfer expenses accounting models

For Decision

Supporting Documents:

10.2.a	Board memo - Feedback analysis on transfer expenses accounting models.pdf	332

11. International Influence and updates

11.1 Board memo – IASB projects and ASAF update – December 2026

4:20 pm (15 min)

For Noting

Supporting Documents:

11.1.a	Board memo - IASB projects and ASAF update - November 2026.pdf	351

11.2 Board memo – IPSASB projects update – December 2026

For Noting

Supporting Documents:

11.2.a	Board memo - IPSASB projects update - November 2026.pdf	358

12. Non-public session

12.1 Non-public session

4:35 pm (10 min)

13. Close Meeting

13.1 Close meeting

Next meeting: NZASB meeting - 133 - 10 Feb 2027, 9:00 am

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Review of the Accounting Standards Framework (ASF)

For-profit tiers and thresholds

NZASB meeting 24 November 2026

Agenda item 5.1a

Presenter:

Leana van Heerden
Senior project manager

Purpose of this agenda item

Purpose of this agenda item – Consideration of the for-profit tiers and thresholds model

This agenda item presents a structured analysis of the for-profit tiers and thresholds model within the ASF, as part of the detailed analysis phase of the ASF review, in the context of changes in the reporting environment, New Zealand's economic setting, and international approaches.

It:

- outlines the background and rationale for the current for-profit tiers and thresholds structure, and the current and emerging pressures and challenges observed in its application.
- examines the settings that determine the tiers – confirming public accountability as the Tier 1 boundary.
- evaluates the Tier 2 options – retaining two tiers with the current settings (and potential framework optionality) or introducing a third tier – and sets out staff's recommended direction.
- proposes wording to be included in the discussion paper relating to for-profit tiers and thresholds (blue text).

The objective is to support the Board in forming a view on the proposed direction for the for-profit tiers and thresholds structure of the ASF for the public discussion paper.

Where this fits in the ASF review:

This paper builds on the Board's earlier detailed analysis discussions on for-profit standards framework options and sector design, and now considers the related question of whether the for-profit tier structure and threshold settings remain fit-for-purpose within the overall ASF.

Feedback sought from the Board

Feedback sought – Consideration of the tiers and thresholds model

The Board is invited to provide feedback on the staff's recommended direction for the for-profit tiers and thresholds model and the proposed discussion paper wording.

Challenges and overall direction

- Whether the identified challenges reflect the key challenges with the current for-profit tier and threshold settings, and whether there are other challenges we should be aware of.
- Whether the analysis provides sufficient support for presenting this direction in the discussion paper, and what additional evidence, safeguards or implementation matters should be addressed.
- Whether for-profit public sector entities should be considered through the public sector tiers and thresholds workstream rather than in this element.
- Whether the proposed discussion paper wording and stakeholder questions are likely to elicit useful evidence for for-profit tiers and thresholds.

Tier 1 and publicly accountable entities

- Whether the Board agrees that public accountability should remain the principal criterion for Tier 1, with no additional size-based threshold for publicly accountable entities.

Tier 2 options and discussion paper wording

- Whether the Board agrees with the staff's assessment of the Tier 2 options, and that the discussion paper should consult on two options – retaining the current settings, or retaining Tier 2 with optionality between approved reporting frameworks – without proposing a third tier.

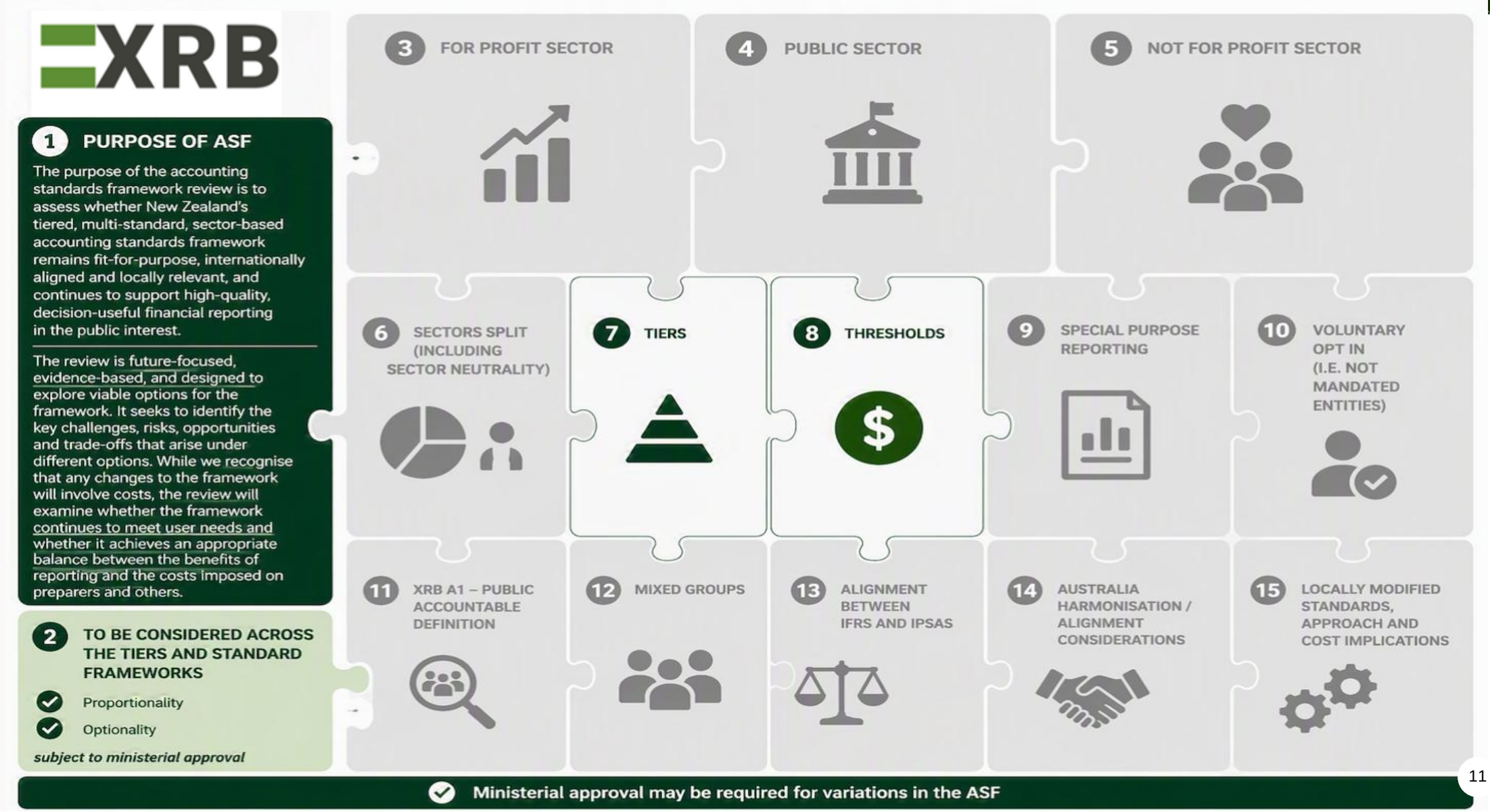
Scope – tiers and thresholds

Scope - what is in XRB control	Constraints – outside XRB direct control
Number of tiers, role and purpose of each tier (subject to s29-s33 of the Financial Reporting Act 2013)	'Who' is required to prepare financial reports: • Requirement to prepare GAAP financial statements (for example, 'large' entities as defined per the Financial Reporting Act 2013) – Refer to Appendix 1.
Tier threshold models, indicators used to determine tiers (e.g. public accountability, expenses), and settings (e.g. $33m of expenses)	

Relationship with other ASF papers

This paper should be read in combination with the *Background to the ASF* paper, which provides the overall context for the ASF review. Although the elements of the review are interrelated, this paper addresses only the architecture of the for-profit tiers and thresholds. Other papers, available on our website, may also add context to some aspects of this paper. We refer to them where relevant rather than repeating their content here. As shown in the illustration on the next slide, this paper analyses puzzle pieces 7 and 8 of the key elements considered in the ASF review.

Consolidated view – key elements for the discussion paper



For-profit tiers and thresholds landscape

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

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

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

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

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

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

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

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

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

Current ASF tiers and thresholds for for-profit entities

The legislative requirements that determine which for-profit entities must prepare general purpose financial reports (GPFR) in accordance with GAAP are summarised in Appendix 1. Where an entity is subject to such a requirement, XRB A1 *Application of the Accounting Standards Framework* determines which tier, and therefore which accounting requirements, apply. The table below summarises the current for-profit structure:

Tier	Entity type – FOR-PROFIT	Standards
Tier 1	• Has public accountability as defined in XRB A1; or • A large for-profit public sector entity with total expenses > $33 million* (as defined in XRB A1)	NZ IFRS
Tier 2	A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: • Has no public accountability; and • In the case of a for-profit public sector entity it must have total expenses ≤ $33 million* (not 'large' as per XRB A1)	NZ IFRS RDR

The framework established through the 2012 approved proposals applies two tiers to for-profit entities, based on public accountability and, for-profit public sector entities, a $33 million expenses threshold*.

The current design provides proportionality mainly through disclosure relief. Tier 1 and Tier 2 share the same recognition and measurement basis, which supports comparability, movement between tiers and group reporting. The key question for the tiers analysis is whether the current two-tier architecture remains the best way to allocate reporting requirements across the for-profit population that has legislative requirements to prepare GPFR in accordance with GAAP.

* This threshold has been updated from $30m to $33m as part of the 2025 Amendments to XRB A1. The application of the amendments is required for accounting periods beginning after 1 January 2027.

Current and emerging considerations relevant to for-profit tiers and thresholds

Several developments since the for-profit tier structure was established provide context for assessing whether it remains fit for purpose. They do not, of themselves, indicate that change is required, and some point in different directions.

Australia's proposed threshold increases

As part of the 2026–27 Federal Budget, the Australian Government proposed doubling the large proprietary company thresholds for consolidated revenue from AUD50 million to AUD100 million and gross assets from AUD25 million to AUD50 million. The 100-employee threshold would remain unchanged, with companies continuing to qualify as large if they meet at least two thresholds.

Exposure draft regulations released for consultation on 19 October 2026 would give effect to these changes, with proposed application to financial years beginning on or after 1 July 2027. Consultation closes on 2 November 2026. Companies falling below the revised thresholds would no longer be required to prepare and lodge audited financial, directors' or sustainability reports. The proposals seek to accommodate business growth while keeping reporting obligations targeted at economically significant entities. They provide a relevant comparator for assessing the proportionality of New Zealand's settings.

Reducing unnecessary compliance costs

Governments and regulators in New Zealand and internationally continue to emphasise regulatory efficiency and reducing unnecessary compliance costs. This is consistent with the original rationale for tiers in the ASF: balancing the benefits of reporting for users against preparer costs. The review should assess whether the current settings continue to achieve that balance.

Current and emerging considerations relevant to for-profit tiers and thresholds

Trans-Tasman alignment

Harmonisation with Australia is a key part of the XRB's Financial Reporting Strategy and supports wider efforts to reduce barriers to cross-border business. Both countries align Tier 1 for-profit standards with IFRS Accounting Standards, but New Zealand applies NZ IFRS RDR in Tier 2, while Australia applies AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Australian Tier 2 requirements continue to evolve. ED 341, issued in June 2026, proposes aligning AASB 1060's classification and presentation requirements with AASB 18 (Australian equivalent to IFRS 18 *Presentation of Financial Statements*). In October 2026, the AASB decided to proceed with finalising the amendments as proposed in ED 341. with the AASB currently progressing amendments following consultation. Other potential changes to AASB 1060, including disclosure requirements arising from the third edition of the IFRS for SMEs Accounting Standard and consideration of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, are being considered separately. The review will need to weigh the benefits of Trans-Tasman alignment against requirements suited to New Zealand's context.

Alternative reporting frameworks

The IASB issued the third edition of the IFRS for SMEs Accounting Standard in February 2025, effective from 1 January 2027. It aligns more closely with IFRS Accounting Standards while retaining simplifications for smaller entities.

IFRS 19, issued in May 2024, is also effective from 1 January 2027. It permits eligible subsidiaries to use reduced disclosures while stating compliance with IFRS Accounting Standards. In July 2024, the XRB decided to retain NZ IFRS RDR rather than adopt IFRS 19, but will consider its disclosure requirements when making future RDR concessions.

These developments provide context for assessing the current two-tier model and whether other proportionality or optionality mechanisms warrant exploration.

Current and emerging considerations relevant to for-profit tiers and thresholds

Changes in the reporting population	Growth in large private companies, overseas-owned entities and complex groups has changed the number and type of entities captured by the framework. Their users and accountability arrangements may differ from those originally contemplated. Understanding these changes is important when assessing whether the tiers remain appropriately targeted.
Reliance on international capital	New Zealand remains reliant on overseas funding. For the year ended June 2026, its current account deficit was $14.6 billion (3.2% of GDP), and its net international liability position at 30 June 2026 was $178.3 billion (stats NZ). Overseas investors, lenders and parent companies reinforce the value of internationally aligned, IFRS-based reporting for comparability, investor confidence and access to capital.
Economic growth and inflation	The current structure was largely designed between 2009 and 2012. Inflation and nominal economic growth have since increased entity size, while complexity and user needs may also have changed. Economic growth and inflation can affect the ongoing appropriateness of monetary thresholds as entity size changes over time.

Collectively, these considerations frame the balance between user needs, reporting costs and international alignment. Economic growth, Australia's proposals and the compliance-cost support examining proportionality, while trans-Tasman links and reliance on international capital highlight the continuing value of IFRS-aligned reporting. The following analysis considers how these factors might be balanced.

Qualitative aspects to consider for tiers and thresholds

Decisions on the tiers and the thresholds have qualitative dimensions. The factors below provide context for the tier and threshold considerations explored throughout this paper.

Serving users and the public interest

- **User needs** – first and foremost – who the primary users are at each tier, and what their information needs are.
- **Public accountability** – whether an entity has, or intends to seek, public accountability (e.g. listing, or stewardship of public funds) rather than being placed in a tier by size alone.
- **Comparability** – how far users need statements to stay comparable across entities and over time, and the point at which simplification between tiers erodes that comparability.
- **International alignment vs local relevance** – balancing international alignment against what is relevant and practical for NZ preparers and users (acknowledging it is a framework standards question, but still relevant in considering it when drawing tier and threshold boundaries) .

Proportionate, coherent and workable

- **Preparer capability and understandability** – whether preparers at each tier can realistically apply the requirements, and whether the resulting statements stay understandable to their users.
- **Proportionality** – matching the reporting obligation at each tier to the size, complexity and public interest of the entity, weighing compliance cost against the benefit to users so requirements stay proportionate.
- **Sector and legislative alignment** – keeping tier and threshold boundaries coherent across the for-profit and PBEs, and considering alignment with the FRA and other statutory reporting thresholds.
- **Stability and transition mobility** – avoiding models that make entities “seesaw” between tiers, and allowing transition relief for those moving up or down.

For-profit tier and thresholds key challenges

As part of the review of the for-profit tiers and thresholds model, staff have identified a number of challenges. These challenges draw on stakeholder feedback, staff experience, and observed pressures within the reporting environment.

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.

1. Limited proportionality within Tier 2

Tier 2 encompasses a broad range of entities with significantly different sizes, complexity, ownership structures and user needs.

Applying a single reporting framework to all Tier 2 entities may not achieve an appropriate balance between reporting costs and benefits for all entities.

2. User needs across a diverse Tier 2 population

The Tier 2 population may include entities with materially different users, ownership structures, financing arrangements and levels of economic significance.

This raises a question about whether a single Tier 2 reporting framework provides information that is sufficiently decision-useful for users.

3. Moving into Tier 2

When entities move into Tier 2 reporting, the transition from non-GAAP or less complex reporting can be costly and resource intensive. This creates challenges for entities crossing reporting thresholds for the first time.

4. Structural complexity

Which tier applies depends on how "for-profit public sector entity" and "public accountability" are understood, and on the legislation setting who must report. In NZ, applying the public accountability definition can also be difficult where entities operate in a fiduciary capacity. XRB A1 was amended in 2026 to help address this challenge.

Jurisdictional comparison – our approach

Overseas approaches are reference points only. Each jurisdiction has its own legislative, regulatory and economic environment, so what other jurisdictions do is not necessarily fit-for-purpose in New Zealand. This comparison is designed to inform the decisions in this paper. We focus on features that test the Tier 1 boundary and how proportionality may be delivered below Tier 1.

1 Why not a full comparison

Who must report, and how, is set by each jurisdiction's own legislation.

The tiers and thresholds consideration does not cover how overseas reporting populations are set.

Comparing legislative settings in full is complex and would not necessarily help decide what is fit-for-purpose for New Zealand.

2 Australia – in more detail

Australia is the principal trans-Tasman comparator, and harmonisation is a relevant ASF consideration.

The two-tier architecture is closely comparable, while the legislation determining who must report differs.

Australia therefore informs both the value of alignment and the limits of direct threshold comparison.

3 Other jurisdictions – frameworks only

Other jurisdictions are compared at framework level, not through a full legal or population analysis. We include only their publicly accountable and non-publicly accountable frameworks.

This supports consideration of proportionality and optionality for entities expected to be comparable to those for-profit entities NZ legislation requires to report.

The comparison is corroborative evidence only and does not replace New Zealand evidence on users, costs, transition and system impacts.

Method: Australia is examined in more detail; selected jurisdictions are used to illustrate alternative framework mechanisms. Findings are then tested against New Zealand's legislative setting, user needs and ASF objectives.

Jurisdictional comparison – Australia

Australia is the closest comparator because of trans-Tasman harmonisation. Both jurisdictions use public accountability for Tier 1 and preserve the same recognition and measurement basis across two tiers. The key structural difference is how legislation defines the population required to report.

For-profit	New Zealand	Australia
Tier 1 – who	Entities with 'public accountability' (XRB A1, aligned with the IFRS definition) and 'large' for-profit public sector entities	Entities with 'public accountability' as defined in AASB 1053 (aligned with the IFRS definition)
Tier 1 – standards	NZ IFRS – IFRS recognition, measurement, presentation and disclosure, with additional NZ disclosures; can claim IFRS compliance	Australian Accounting Standards (AAS) – IFRS-based; can claim IFRS compliance (except superannuation entities)
Tier 2 – who	Entities not required to report in Tier 1	Entities not required to report in Tier 1
Tier 2 – standards	NZ IFRS RDR – same recognition and measurement as Tier 1, with reduced disclosures	AAS – Simplified Disclosures (AASB 1060) – same recognition and measurement as Tier 1, with reduced disclosures

'Large' proprietary companies (Australia) meet two of three: consolidated revenue of AUD 50m or more, gross assets of AUD 25m or more, 100 or more employees. The 2026–27 Federal Budget proposes doubling the revenue and assets thresholds (to AUD 100m and AUD 50m); employee numbers unchanged. Exposure draft regulations (consultation closes 2 November 2026) would apply from 1 July 2027. Companies falling below the revised thresholds would no longer be required to prepare and lodge audited financial, directors' or sustainability reports.

What this tells us: Australia supports public accountability as the Tier 1 boundary and shows that proportionality can operate within two tiers through reduced disclosures. New Zealand's legislative 'who must report' thresholds are outside the scope of the ASF review; however, proposed changes to Australia's reporting thresholds provide relevant environmental context.

Source: Memorandum 'Reporting requirements in Australia for public sector and private sector NFP entities' (October 2026).

Jurisdictional comparison – other jurisdictions

For other jurisdictions we look at their publicly accountable (listed entities) and non-publicly accountable frameworks only. This supports consideration of proportionality and optionality for entities expected to be comparable to those NZ legislation requires to report. It does not examine how each jurisdiction's reporting population is set or the legislative environment. These approaches are reference points only.

Jurisdiction	Tier 1 – publicly accountable entities (NZ: NZ IFRS)	Tier 2 – non-publicly accountable entities (NZ: NZ IFRS RDR)	Comparison with New Zealand
United Kingdom	UK-adopted IFRS (UK-IFRS)	UK GAAP (FRS 102); FRS 101 available for qualifying group entities	IFRS-based for listed entities. Separate framework for non-publicly accountable entities, with a reduced disclosure option limited to group entities.
United States	US GAAP	US GAAP, with private company accounting alternatives for eligible entities	Main comprehensive non-IFRS framework – a significant departure from NZ IFRS and trans-Tasman alignment. No Tier 2-style reduced disclosure regime.
Singapore	Singapore Financial Reporting Standards (International) – SFRS(I), substantially converged with IFRS	Singapore Financial Reporting Standard for Small Entities (SFRS for SE) for eligible entities	Supports comparability with NZ IFRS for listed entities. Different Tier 2 approach: separate small-entity framework based on IFRS for SMEs.
China	Chinese Accounting Standards for Business Enterprises (CAS/ASBE), substantially converged with IFRS	CAS/ASBE – no separate reduced disclosure framework	NZ's largest trading partner. Converged with IFRS but no timetable for full adoption, and no NZ-style Tier 2 reduced disclosure framework.
Japan	Japanese GAAP (JGAAP); IFRS permitted; US GAAP	JGAAP for many non-listed entities; IFRS and other frameworks in limited circumstances	Different approach – optionality between multiple accepted frameworks rather than tiers.

Frameworks for publicly accountable entities are widely IFRS-based; approaches for Tier 2 entities vary considerably. This supports the consideration of proportionality and optionality as part of the for-profit tiers and thresholds analysis.

Source: Board Memo Tier 1 for-profit reporting framework review and Tier 2 for-profit reporting framework review.

Tier and threshold analysis

Approach to the analysis

The main question for the for-profit tiers and thresholds analysis is whether existing Tier 1 and Tier 2 boundary settings remain appropriate; whether a third tier should be explored, or whether greater optionality should be provided within Tier 2.

For the for-profit tiers and threshold analysis, staff have taken a different approach from the viable options analysis used for sectors and frameworks.

Rather than beginning with a full set of alternative tiers and threshold models, the analysis starts by considering the current settings and the populations captured by those settings, to the extent information is available.

→

Staff then considered whether there is a compelling basis to depart from the current settings. Where such a basis is identified, further options and implications are explored.

Tier	FOR PROFIT Entity type	Slide(s) number
Tier 1 and Tier 2	All for-profit public sector entities	20
Tier 1	Has **public accountability** as defined in XRB A1	21
Tier 2	A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: • Has no public accountability.	24

XRB A1 BC11. The two criteria for determining whether a for-profit entity applies Tier 1 For-profit Accounting Requirements are "public accountability" and size of *for-profit public sector entities*. An entity that has public accountability is required to report in accordance with Tier 1 For-profit Accounting Requirements. In addition, a "*large" for-profit public sector entity* is also required to report in accordance with Tier 1 For-profit Accounting Requirements.

Tier 1 & Tier 2 – For-profit public sector entities

Tier	Entity type – FOR-PROFIT	Standards
Tier 1	• Has public accountability as defined in XRB A1; or • ***A large for-profit public sector entity with total expenses > $33 million* (as defined in XRB A1)***	NZ IFRS
Tier 2	A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: • Has no public accountability; and • ***In the case of a for-profit public sector entity it must have total expenses ≤ $33 million* (not 'large' as per XRB A1)***	NZ IFRS RDR

- The second Tier 1 and Tier 2 setting applies to **for-profit public sector entities**, determined by the expenses threshold in XRB A1. This population is ~115 entities in Tier 1 and approximately ~90 entities in Tier 2. It contains a broad mix of entities such as State Owned Enterprises, Council Controlled Organisations, Crown Entities, Ports, Airports, etc. *
- Unlike publicly accountable for-profit entities, these entities operate within the public sector accountability framework. The current ASF applies the same threshold concepts to public sector entities, regardless of whether they are classified as for-profit or public benefit entities.
- This reflects that, although these entities are classified as for-profit for standards purposes, the accountability concern that drives the size threshold is primarily a public sector concern - the stewardship of public resources and the economic significance of entities operating within the Crown or public sector accountability environment. The definition of public accountability in XRB A1 also does not focus on what makes public sector entities accountable.
- It was concluded that any assessment of the appropriateness of this threshold should be **undertaken as part of the public sector tiers and thresholds analysis**, rather than separately within the for-profit review.

Conclusion

The public sector accountability context supports considering for-profit public sector entity tiers and thresholds alongside those of other public sector entities. Agenda item 5.2 addresses this analysis.

* Source: Active entity list obtained from Audit NZ in March 2025.

Tier 1 - Public accountability indicator

Tier 1 threshold setting – entities with public accountability

The July 2026 NZASB meeting contained an agenda item that considered the definition of public accountability in XRB A1. This agenda item does not reconsider that definition. Instead, it considers whether public accountability remains an appropriate basis for classifying for-profit entities as Tier 1.

Indicative Tier 1 for-profit population

NZX equity issuers and funds (NZ-domiciled)	**~172**
NZX listed debt issuers	**~46**
Australian NZX–ASX dual-listed entities	**~53**
Registered banks and licensed insurers	**~108**
Registered managed investment schemes (including KiwiSaver)	**~31 KiwiSaver providers**
Other higher public accountability (HLPA) entities	**Small number**

Indicative, non-exhaustive counts. Refer to the Tier 1 for-profit framework review paper, Appendix 2, for further detail.

Reporting needs

These entities have a broad external user base, whatever their size, and need reporting that supports:

- **comparability across entities and markets;**
- **investor, creditor and depositor decision-making;**
- **confidence in New Zealand's capital markets; and**
- **alignment with internationally recognised framework.**

Why public accountability, not size, sets the Tier 1 boundary

Nature and breadth of accountability

Public accountability identifies entities with a broad range of external users who rely on general purpose financial statements, including investors, creditors, depositors, policyholders and scheme members. These users need robust, comparable and accountable reporting. That need comes from the nature and breadth of the entity's accountability, not from its size.

Original rationale and New Zealand provisions

This remains consistent with the original rationale in XRB A1 (BC12–BC17). The IASB definition was adopted to link Tier 1 to the information needs of investors and the population for which IFRS Accounting Standards were developed, maintain international alignment, and support harmonisation with Australia. The New Zealand deeming provisions supplement this definition to reflect the domestic legislative and regulatory environment.

In June 2026, the XRB clarified NZ application of the fiduciary-capacity test (BC51–BC56). It also clarified that FMC reporting entities without higher public accountability do not meet paragraph 8(b). These NZ clarifications preserve the IASB definition.

Why an additional size filter is unnecessary

Size does not change who relies on an entity's reporting or what they need from it. A smaller listed entity, bank, insurer or managed investment scheme still has broad external users and holds or manages resources on behalf of others. A size filter would move entities with the same public accountability into different reporting tiers, weakening comparability and accountability.

The logic in brief

Public accountability
Broad external reliance on general purpose financial statements

→

Broad range of users
Investors, creditors, depositors, policyholders, scheme members

→

Common reporting needs
Robust, comparable and accountable reporting

→

Size is not the test
Same accountability, same Tier 1 framework

Tier 1 boundary conclusion

International comparison

Frameworks for publicly accountable entities are widely IFRS-based across the jurisdictions reviewed (slide 17), which supports a public-accountability/capital-market-based Tier 1 boundary; see the Tier 1 for-profit framework analysis paper for detail. Australia is the closest comparator (slide 16): it also uses public accountability for Tier 1 and the same recognition and measurement basis across two tiers. Its size-based 'large' company thresholds sit in legislation and determine who must report, not which standards apply – the same distinction as in New Zealand. Trans-Tasman alignment therefore supports public accountability as the Tier 1 boundary, while size operates separately in the reporting legislation.

Alternatives considered

Alternative sized-based indicators (e.g. expenses, revenue, assets, employees and shareholders) and threshold models (single-indicator, either/or, both and multi-factor) were considered as part of our high-level analysis. Introducing a Tier 1 size threshold would therefore need to deliver a clear benefit sufficient to outweigh the potential reduction in consistency between entities with comparable accountability, international and trans-Tasman comparability, and simplicity of the tier boundary. Staff have not identified evidence of such a benefit.

Trade-offs of public accountability as the only T1 boundary

What is given up

- No size-based differentiation within Tier 1
- Reliance on the accurate application of the public accountability definition
- Less scope to tailor requirements to entity size or capacity within Tier 1

Weighing the trade-offs

- **Consistency outweighs size differentiation:** entities with the same accountability report on the same basis, whatever their size, supporting comparability and a simple, stable boundary.
- **Costs for smaller entities are matched by need:** they cannot opt down, but their broad user base (investors, depositors, policyholders and scheme members) relies on robust reporting.
- **Definition risk is mitigated:** the XRB A1 definition and New Zealand deeming provisions are established and are not being reconsidered here.

Staff conclusion

Staff consider that public accountability should remain the sole threshold-setting criterion for classifying for-profit entities into Tier 1. Entity size does not change the breadth of users or their need for robust, comparable reporting, and the alternative indicators and threshold models considered do not improve on public accountability, so no additional size-based threshold is considered necessary for entities that meet the public accountability criterion.

Tier 2 - Entities without public accountability

- The current ASF permits a for-profit entity to elect to report in Tier 2 if it does not have public accountability. The Tier 2 population comprises both entities required to report under legislation (mandated entities) and entities that voluntarily apply XRB accounting standards (entities that opt-in). As previously agreed, the ASF review will only focus on mandated entities, refer to the NZASB paper on entities that voluntarily apply Tier 2 reporting requirements.
- We do not have visibility of the population size, scale, and complexity of all the Tier 2 for-profit entities using our standards as not all Tier 2 entities have filing obligations. The minimum legislative threshold as per the Financial Reporting Act 2013 (FRA) and Companies Act 1993 (refer to Appendix 1 - noting that other legislation may also impose GAAP compliant financial reporting obligations) place the following entities in the Tier 2 category:

  - Companies with over **$66m in assets or $33m in revenue;**
  - Overseas companies with over **$22m in assets or $11m in revenue;** and
  - Companies with **more than 10 shareholders.**

→

These mandated Tier 2 entities:

- Meet a minimum **economic scale** set by legislation
- May have **significant creditors, employees and stakeholders**
- Operate at a scale where a credible, consistent, and **trusted financial reporting framework is essential**.

Evidence base - what we have on the Tier 2 population (Massey University research for the XRB, 2016/17):

Population size

- **~2,246** Tier 2 for-profit entities
- Built from Stats NZ, FMA, Companies Office and OAG data

Who was in the population

- Large private and overseas companies, entities with 10+ shareholders, group subsidiaries and for-profit public sector entities
- **Diverse in size, complexity and capability**

Limitation - the estimate is from 2016/17, used earlier 'large' thresholds ($30m/$60m) and cannot be refreshed: no central register exists.

Tier 2 population – Limited evidence

What we know

- Mandated entities have no public accountability but are required by legislation to prepare GAAP financial statements
- The population includes entities caught through different legislative routes
- Existing RDR retains NZ IFRS recognition and measurement
- International approaches below public accountability vary

What we do not know sufficiently

- The complete population and its distribution by size/complexity
- Which aspects of NZ IFRS create disproportionate cost
- Whether users value IFRS recognition and measurement consistently across that population
- Likely demand for an alternative framework
- Consequences for groups, lenders, auditors and regulators

Viable options - Because these gaps limit how far the evidence can take us, staff's thinking has focused on approaches that can be considered based on the available information. Staff identified two viable approaches for the Tier 2 population settings:

Tier 2 population
Mandated for-profit entities without public accountability

Two viable options →

Option 1 — Retain the current Tier 2 setting. A single Tier 2 boundary for entities without public accountability. No new threshold setting would be required. Optionality of reporting frameworks to be considered.

Option 2 — Introduce a Tier 3. A subset of Tier 2 entities would move into a new Tier 3. A threshold would be required to distinguish between entities applying Tier 2 and Tier 3 requirements.

Note - Before we go into the analysis of the options, we should consider optionality and what that means, which is covered on the next slide.

Optionality – setting the scene for Tier 2

What do we mean by optionality for Tier 2 for-profit entities?

Optionality would let a mandated Tier 2 for-profit entity stay in Tier 2 but choose between different reporting frameworks. The framework choices are not pre-selected.

Why it matters for tiers and thresholds

As indicated above as well as in the challenges (slide 14) Tier 2 entities are diverse in size, complexity and user needs. Additionally, there is limited proportionality in Tier 2 for such a diverse population. RDR gives disclosure relief only, so proportionality is limited for Tier 2 entities that find full recognition and measurement too complex. Optionality is an alternative to a new tier and size threshold (Option 2) for delivering that proportionality.

How this fits with the optionality paper

The optionality paper's (refer to agenda item 5.3) preliminary position for for-profit Tier 2 is to consult on optionality, with no frameworks pre-selected. Tier 1 optionality is not progressed, consistent with public accountability as the Tier 1 boundary.

Optionality is considered for Tier 2 for-profit entities within Option 1 only, not a three-tier model (option 2)

Option 1 (retain current settings) is assessed on the basis that mandated Tier 2 entities could elect a permitted framework, with no new tier or size threshold.

Option 2 (add a Tier 3) delivers proportionality through the new Tier 3 setting, so adding optionality would create unnecessary complexity without further benefit. It is therefore not applied to Option 2.

Staff recommend including only Option 1 with framework optionality in the discussion paper, consulting on benefits, costs and conditions without selecting the frameworks in the discussion paper.

Source: ASF Review – Optionality Considerations (November NZASB pack). Staff positions are preliminary and do not represent a Board decision.

Option 1: Retain current settings

Implications and impact:

Retains the current Tier 2 boundary being driven by the legislative reporting thresholds, with no additional size threshold or tier. Mandated entities without public accountability remain in Tier 2. If this setting is maintained, optionality will be considered as part of the discussion paper questions, such as a choice between NZ IFRS RDR and a simplified framework (e.g. IFRS for SMEs). Optional frameworks, eligibility conditions and switching rules would need to be determined.

Strengths:

- Builds on New Zealand's existing Tier 2 boundary, avoiding another tier or size threshold and preserving continuity for current reporters.
- If optionality were considered, it could improve proportionality by matching framework choice to entity complexity and user needs.
- A simplified framework, if permitted, could lower reporting costs and ease first-time entry, while entities could retain NZ IFRS RDR.

Weaknesses and safeguards:

- Without optionality,
  - All Tier 2 entities apply a single framework - proportionality is limited through RDR only.
  - Does not ease the cost and effort for entities moving into Tier 2 for the first time
- If optionality were considered,
  - An additional framework may need to be maintained;
  - Framework differences may reduce comparability and add ongoing support costs to Tier 2 entities.
  - Switching would incur transition costs. Clear switching rules would help contain them.

Overall balance:

Staff consider this a viable option. It provides continuity without adding complexity relating to a tier or size threshold. Framework optionality would be considered as an additional feature, with its benefits weighed against transition and ongoing support costs.

RAG rating: ●

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

Option 2: Introduce a third tier

Implications and impact:

Introduces a new Tier 3 beneath Tier 2, so that eligible for-profit entities without public accountability report under a simplified framework (e.g. IFRS for SMEs or locally modified framework). A new threshold setting would set the Tier 2 / Tier 3 boundary. Optionality has not been worked into this option - proportionality would be delivered through the Tier 3 setting, so adding optionality could create unnecessary complexity without further benefit.

Strengths:	Weaknesses:
• Improves proportionality by the option to have simplified recognition and measurement framework for a portion of the Tier 2 population. • Reduces compliance cost and effort for smaller for-profit entities currently reporting under full Tier 2 • Eases the step-up into Tier 2 and can leverage an established simplified framework such as IFRS for SMEs	• Adds a further tier, threshold and transition point, increasing complexity in the for-profit framework • Requires setting, maintaining and periodically updating an additional set of standards and a new boundary • Reduces comparability across the sector and creates first-time transition effort for entities moving between tiers • Some Tier 2 entities that do not need complex recognition and measurement (based on user needs) may not be eligible for Tier 3

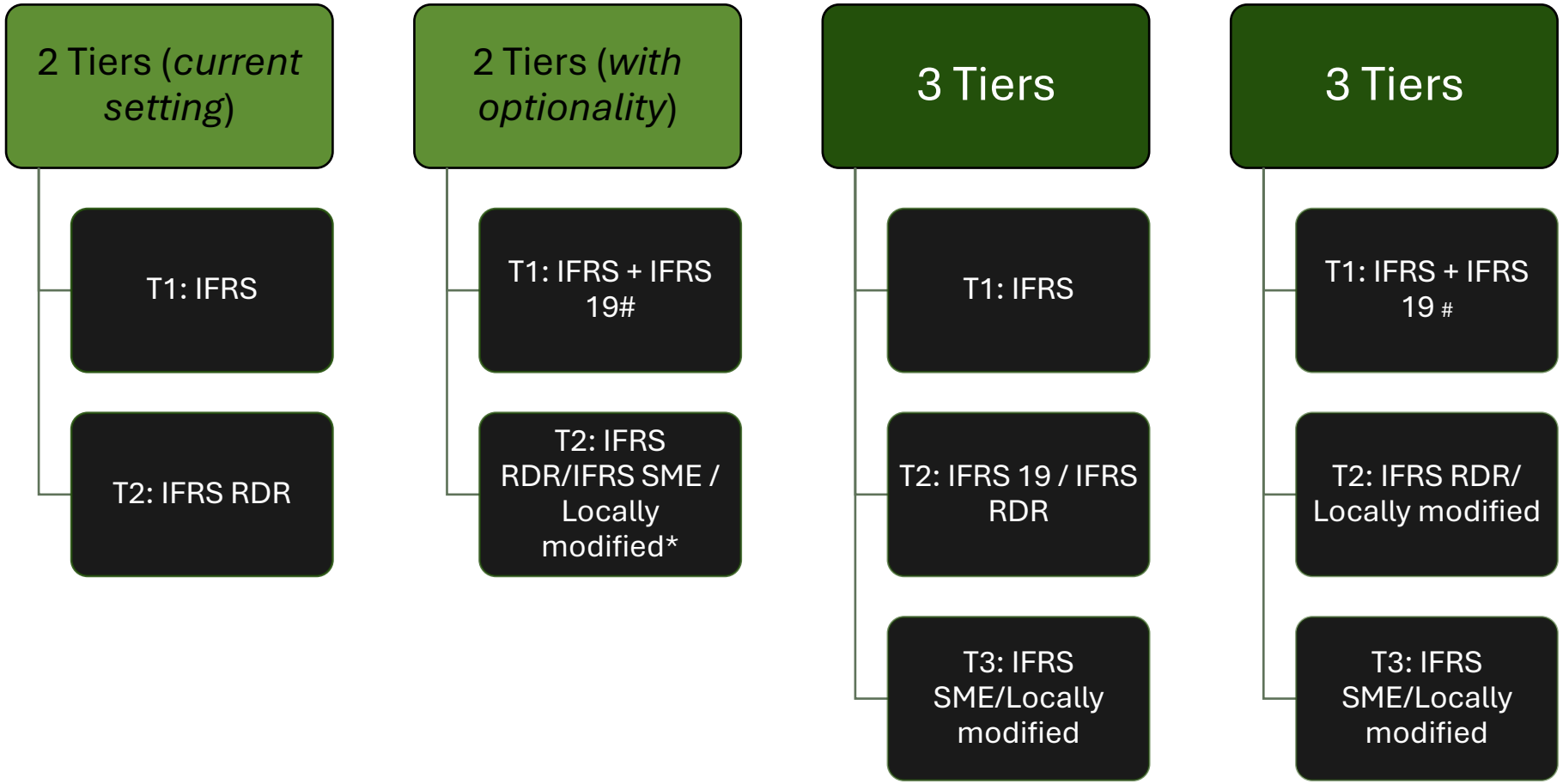
Overall balance:

May improve proportionality for a sub-population of eligible Tier 2 entities by introducing a simplified Tier 3 reporting framework, but adds a further tier, threshold and transition point that increases complexity and may require an additional standard framework to be maintained. Different recognition and measurement requirements will result in this transition point being significantly different to the current transition point within the for-profit tiers framework.

RAG rating: 🟠

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

How might these options look



*Optionality to be considered where we bring in more than one framework into a Tier. E.g. Tier 2 might have IFRS RDR or IFRS SME to choose from depending on user needs determined by the reporting entity.

IFRS 19 may be applied by entities reporting under Tier 1 that are subsidiaries of publicly accountable entities, and do not elect to report under Tier 2.

Narrowing the options for consultation

Current settings remain a distinct option

Retaining two tiers without framework optionality remains an option for consultation. It preserves the existing NZ IFRS RDR approach and has a distinct balance of benefits and costs.

Two other alternatives offer similar proportionality benefits

The Tier 2 population may include entities with materially different users, ownership structures, financing arrangements and levels of economic significance. From this perspective, international alignment but also simplification matters to stakeholders (refer to agenda item 3.1). Because these needs differ, the options need to consider proportionality within Tier 2, not only the split between Tier 1 and Tier 2. Two options emerged.

Option 1 – two tiers with framework optionality and Option 2 introducing a third tier could both provide access to a simplified reporting framework. Their main difference is how entities gain access:

Option 1 with optionality: *eligible entities choose an approved framework within Tier 2.*

Option 2 introducing Tier 3: *a new tier boundary determines eligibility for simplified reporting.*

Purpose of the following comparison

The following analysis tests whether either approach offers sufficient advantages over the other to justify excluding the less suitable approach from consultation. This would avoid consulting on overlapping alternatives where one offers no sufficient additional benefit.

The current settings (two tiers without framework optionality) remain an option regardless of the outcome of this comparison.

Comparing framework optionality with a third tier

Both options can improve proportionality, reduce reporting effort and offer a simpler route for first-time reporters. The distinction is how access to a simplified framework is determined.

Assessment	Option 1: Two tiers with framework optionality	Option 2: Introduce a third tier
Fit with reporting needs	Framework choice responds to entity complexity and user needs within the existing Tier 2 population. This may be subject to eligibility rules.	A threshold (most likely size-based, though other factors could be considered) would target simplification at a subset of Tier 2 entities, but a threshold setting may not capture complexity or user needs.
Access and continuity	Eligible entities can choose a simplified framework or retain NZ IFRS RDR, subject to eligibility conditions. No additional Tier 2/Tier 3 boundary determines access.	Entities above the new threshold remain in Tier 2 even where simplification might suit their needs.
Growth and transition	Avoids a new size-triggered move between tiers. Entities switch when the benefits justify the costs, subject to switching rules.	Crossing the new threshold can trigger a framework change and transition effort even without a change in user needs.
Administration	Requires support for multiple frameworks and clear switching rules, but no new threshold to calibrate, monitor or update.	Also requires support for multiple frameworks, plus threshold administration. Adds a level of ASF complexity with a boundary consideration.
Comparability and consistency	Trade-off: choice reduces comparability and consistency between entities of similar size or characteristics, and over time for entities that switch. This matters less for Tier 2 entities that are not publicly accountable than for Tier 1.	Entities in the same tier apply the same framework, so comparability is stronger within each tier. Similar entities either side of the threshold may still report differently, and a threshold may not capture comparable characteristics.

Key distinction: both offer simplification, but optionality can match reporting needs without another size-based boundary, at the cost some comparability between similar entities.

Why framework optionality is the stronger fit

IFRS complexity may exceed Tier 2 user needs

Full IFRS serves global capital markets and entities with complex transactions. NZ IFRS RDR retains its recognition and measurement requirements, which may exceed the needs of non-publicly accountable Tier 2 entities and their users. A three-tier model could leave entities above a size threshold applying these requirements even where simplified reporting would suffice. Optionality avoids making a threshold the deciding factor.

Different Tier 2 needs call for simplification without closing the IFRS pathway

Stakeholder feedback to date is varied, refer to agenda item 3.1, for some entities Trans-Tasman alignment is important, while others highlight simplicity as the main objective. Optionality lets each Tier 2 entity weigh its own user needs and follow the framework that suits them, retaining NZ IFRS RDR or full NZ IFRS for listing plans, group consolidation or owner and user needs. A third-tier model could retain the existing default to Tier 1, with entities able to elect a lower tier, but optionality offers broader access to simplification without a threshold cut-off.

Benefits can be targeted while transition remains voluntary, with downside

Entities can retain familiar systems where switching offers little value, and optionality avoids size-triggered transitions and another boundary to maintain. The trade-off is reduced comparability and consistency between entities of similar size or characteristics. This may matter less for Tier 2 entities that are not publicly accountable than for Tier 1. Additionally it will require users to understand different accounting bases, create group consolidation adjustments and complexity, and increase training, audit, software and standard-maintenance costs. It also requires clear eligibility and switching rules.

Recommendation in drafting of the discussion paper

Of the two approaches compared, staff favour framework optionality within Tier 2. Staff recommend taking this approach forward alongside the current settings without optionality, and excluding a third tier from the consultation options. This allows reporting requirements to match entity and user needs, while retaining NZ IFRS RDR or full NZ IFRS where appropriate and letting entities keep their current framework where switching offers little benefit.

Staff do not recommend a three-tier model because it adds threshold-driven transitions, while continuing to leave some entities subject to IFRS requirements that exceed their users' needs.

Optionality offers broader access to proportionate reporting without these additional requirements, but with trade-offs. This is a qualitative staff assessment based on the available evidence. Consultation should test the expected benefits, costs and safeguards before any final decision. Trade-offs to disclose in discussion paper - reduced comparability between similar entities, possible selective framework choice, less consistency over time for switching entities, and the cost of supporting multiple frameworks.

No further threshold settings: A third tier is not proposed as a viable option, so no third-tier threshold has been considered. Public accountability remains the sole threshold between Tier 1 and Tier 2, with no further monetary or qualitative threshold.

Staff recommendation and feedback sought

Drawing together the analysis in this paper, staff recommend the following direction for the discussion paper.

Tier 1

- Retain public accountability as the primary criterion for Tier 1 classification.
- Do not add a size threshold for entities that meet the public accountability criterion.
- Consider large for-profit public sector entities through the public sector tiers and thresholds workstream.

Tier 2

- Retain one Tier 2 population for mandated for-profit entities without public accountability.
- Explore optionality of different frameworks.
- Do not propose, as a viable option, a new Tier 3 or a new size-based boundary.

Feedback sought

1. Does the Board AGREE with the key challenges identified with the current for-profit tier and threshold settings, and are there any other challenges we should be aware of?
2. Does the Board AGREE to consult on these two Tier 2 options, without proposing a third tier?
3. Does the Board have FEEDBACK on the analysis provided and does it contain sufficient support for presenting this direction in the discussion paper?
4. Does the Board IDENTIFY any areas where further analysis or evidence is required to support the ASF discussion paper?

Staff recommendation: Staff recommend consulting on two options for Tier 2: retaining the current settings without framework optionality, or retaining two tiers with framework optionality within Tier 2. Staff do not recommend taking a third tier forward as a viable option.

Please refer to the accompanying Word document for the proposed discussion paper wording.

Appendices

Appendix 1 - Legislative requirements to apply XRB accounting standards

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

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

End of agenda item 5.1a

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	24 November 2026
Subject:	**For-profit Tiers and Thresholds – Discussion Paper**
Date:	11 November 2026
Prepared by:	Leana van Heerden
Through:	Nimash Bhikha and Michelle Lombaard

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

Purpose

1. This memo seeks the Board's feedback on the proposed for-profit tiers and thresholds section of the Accounting Standards Framework (ASF) Discussion Paper. The proposed extract draws on the accompanying for-profit tiers and thresholds analysis, and sets out the proposed direction and options on which we propose to seek stakeholder feedback.

Recommendations

2. We recommend the Board **PROVIDE FEEDBACK** on whether the:

   (a) Proposed Discussion Paper extract appropriately identifies the key for-profit tier and threshold issues and explains the proposed retention of public accountability as the principal Tier 1 criterion;

   (b) Proposed consultation on retaining the current Tier 2 settings or allowing optionality between approved reporting frameworks, without proposing a third tier, is appropriately framed; and

   (c) Stakeholder questions are likely to elicit useful evidence on practical challenges, user needs, costs, benefits and safeguards to inform subsequent decisions.

Background

3. Staff have analysed the for-profit tier structure and threshold settings as part of the detailed analysis phase of the ASF review, refer to agenda item 5.1a. The accompanying presentation, For-profit tiers & thresholds detailed analysis, considers the current framework, practical challenges, Tier 1 eligibility and options for providing greater proportionality within Tier 2.

4. The analysis addresses the architecture of the for-profit tiers and thresholds, rather than which entities are required by legislation to prepare financial statements. The separate Tier 1 expense threshold for for-profit public sector entities is proposed to be considered through the public sector tiers and thresholds workstream. The definition of public accountability and the assessment of possible Tier 2 reporting frameworks are considered separately in the review.

Draft discussion paper

5. The proposed Discussion Paper extract explains the proposed direction and the two Tier 2 options on which stakeholder views would be sought. It:

   (a) Explains the current two-tier framework and the proposed retention of public accountability as the principal Tier 1 criterion;

   (b) Explains why a third tier is not proposed and distinguishes the public sector expense-threshold workstream from this analysis;

   (c) Presents retaining the current Tier 2 settings and retaining Tier 2 with optionality between approved reporting frameworks as the consultation options; and

   (d) Seeks evidence on practical challenges, alternative settings, costs, benefits and safeguards for any framework choice.

6. The extract below is draft Discussion Paper wording and may change when the full Discussion Paper is assembled to avoid duplication and ensure coherence across the paper. It does not select additional frameworks for Tier 2 optionality; that assessment is addressed in the separate Tier 2 reporting framework analysis. References to related sections will also be aligned at that stage.

Draft Discussion Paper extract

For-profit tiers and thresholds

The for-profit tiers and threshold settings under the current Accounting Standards Framework are as follows:

Tier	Entity type – FOR-PROFIT	Standards
Tier 1	**Has public accountability as defined in XRB A1; or A large for-profit public sector entity with total expenses > $33 million* (as defined in XRB A1)**	**NZ IFRS**
Tier 2	**A for-profit entity may elect (under an enactment or voluntarily) to report under Tier 2 if it: Has no public accountability; and In the case of a for-profit public sector entity, has total expenses ≤ $33 million* (not "large" as defined in XRB A1)**	**NZ IFRS RDR**

** The threshold has been updated from $30 million to $33 million as part of the 2025 Amendments to XRB A1. The amendments apply for accounting periods beginning on or after 1 January 2027.*

We are reviewing whether this tier structure continues to provide an appropriate balance between the information needs of users and the costs of reporting.

Please note, we are not considering the Tier 1 and Tier 2 settings for for-profit public sector entities (the total expenses threshold in XRB A1, shown above as $33 million*) in this section. The accountability concern behind that threshold is primarily a public sector one – the stewardship of public resources and the economic significance of entities within the public sector accountability environment – so it is better assessed alongside other public sector entities in the public sector tiers and thresholds section of the Discussion Paper.

Public accountability and Tier 1

We propose retaining public accountability as the principal criterion requiring for-profit entities to report in Tier 1. Public accountability is concerned with the nature of an entity's accountability to external users, rather than size alone. It identifies entities with broad external reliance on general purpose financial statements, such as listed entities and entities that hold resources for depositors, policyholders, investors and scheme members. It also links Tier 1 to the information needs of investors and supports international and trans-Tasman alignment.

We do not propose adding a general qualitative or monetary size threshold for for-profit entities or a size filter that would allow a publicly accountable entity to report below Tier 1. Size does not remove the characteristic that drives Tier 1 classification: a smaller listed entity, bank, insurer or managed investment scheme may still have broad external users, and a size filter could place entities with the same public accountability in different tiers. We have not identified a benefit that would outweigh the loss of consistency, comparability and ability to meet users' needs. The definition of public accountability is considered separately in this review.

How we approached Tier 2

We started by considering the current Tier 2 structure and the challenges Tier 2 entities face with the complexity of NZ IFRS requirements. NZ IFRS RDR provides disclosure relief only, so proportionality is limited for entities that find the full recognition and measurement requirements complex. Based on that, we considered three approaches for the Tier 2 reporting framework: retaining the current settings; retaining two tiers but adding proportionality through a limited choice of approved reporting frameworks within Tier 2 (optionality); or introducing a third for-profit tier for a defined subset of Tier 2 entities.

Why a third tier does not offer sufficient additional benefit

A third tier could make a simplified framework available to a defined population, but it would also require another eligibility boundary, a threshold or other allocation mechanism, and provisions for entities moving between tiers. A threshold may not capture complexity or user needs, and crossing it could trigger a framework change even where those needs have not changed.

The simplification would arise primarily from the reporting framework applied, rather than from creating a third tier. Optionality could provide access to a simplified framework without an additional tier boundary. We have not identified a sufficiently clear case that another boundary is needed.

Options left to be considered

We therefore propose retaining two for-profit tiers, with public accountability as the Tier 1 boundary, and are consulting on two options for Tier 2: retaining the current settings, or retaining Tier 2 with optionality between approved reporting frameworks. Under optionality, an entity would apply an approved framework as a whole, not individual treatments from different frameworks, and would need to meet its eligibility requirements. Optionality is elaborated on in a separate section of the Discussion Paper.

There are trade-offs. Application of different frameworks could reduce comparability, require users to understand different accounting bases, create group consolidation adjustments, and increase training, audit, software and standard-maintenance costs. We have not decided which additional frameworks should be available for Tier 2 optionality; that is considered in the separate Tier 2 reporting framework analysis.

Questions for stakeholders

1. What are the practical challenges currently experienced with the current for-profit tier and threshold settings that should be considered for for-profit entities, users, preparers, auditors, regulators or New Zealand's reporting ecosystem?

2. Do you agree that public accountability should continue to be the principal criterion requiring for-profit entities to report in Tier 1? Is there another setting or criterion you think should be considered?
3. Which option do you prefer for Tier 2: retaining the current settings (Tier 2 entities apply NZ IFRS RDR), or retaining two tiers with optionality between approved reporting frameworks? Why, including the benefits or costs for users, preparers, auditors and groups? Is there another setting not included that you would prefer?
4. If more than one framework were available within Tier 2, what safeguards or eligibility conditions would help ensure the benefits and costs of financial reporting are balanced?

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on the proposed discussion paper framing and stakeholder questions for for-profit tiers and thresholds, including retaining public accountability as the principal Tier 1 criterion and consulting on the current Tier 2 settings or optionality without proposing a third tier?

Related papers

- For-profit tiers & thresholds detailed analysis.

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EXTERNAL REPORTING BOARD

Review of the Accounting Standards Framework (ASF)

Public Sector tiers and thresholds

NZASB meeting 24 November 2026

Agenda item 5.2a

Purpose of this agenda item

Purpose of this agenda item – Consideration of the tiers and thresholds model

This agenda item presents staff analysis of tier and threshold models for public sector entities.

This paper also seeks the Board's agreement on the public sector tier and threshold options that staff propose to include in the Accounting Standards Framework discussion paper.

In particular, the Board is asked to agree that the discussion paper should seek feedback on:

- tier options - including retaining the current four-tier structure, or removing a tier by merging Tiers 1 and 2;
- threshold options – including retaining expenses as the sole size indicator or introducing an expenses-or-assets indicator;
- the continued role of public accountability as an additional Tier 1 criterion;
- whether the separate Tier 1 threshold for for-profit public sector entities should be retained; and
- whether cash-based reporting should continue to be presented as Tier 4 or instead as a separate non-GAAP standard (outside of the tiering system).

The Board is not being asked to determine the final public sector tier framework or final threshold amounts. Those decisions will be informed by feedback on the discussion paper.

Feedback sought from the Board

Key message – Public sector: the current structure broadly works; the main structural question is whether Tier 2 reduced disclosures remain meaningful.

Building on the purpose of this agenda item set out on the previous slide, the Board is invited to provide feedback on the questions grouped below, to inform the development of the discussion paper and further work on the project.

Tier options

- Does the Board agree that Public Sector tier options viable for consultation via the Discussion paper include:
  - Current four tier structure
  - Three tier structure by merging Tier 1 and Tier 2 into a single tier
- Does the Board have any feedback on the analysis and evaluation of Public Sector tier options?

Threshold options

- Does the Board agree that Public Sector threshold options viable for consultation via the Discussion paper include:
  - Expenses only
  - Expenses or assets
- Does the Board have any feedback on the analysis and evaluation of Public Sector threshold options?

Public accountability

- Does the Board agree that the Discussion paper should seek views on whether Public Accountability should remain a Tier 1 criterion for the Public Sector?

For-profit public sector entities

- Does the Board agree that the discussion paper should seek views on retaining a separate Tier 1 threshold for for-profit public sector entities?

GAAP and Non-GAAP distinction

- Does the Board have any feedback on reorganising the ASF by GAAP and non-GAAP standards prior to sector and tier selection, and whether a common Non-GAAP standard could apply across Public Sector and NFP entities?

PBE tiers and thresholds landscape

Background – rationale for PBE tiers and thresholds approach in the ASF

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

In 2011, the ASRB/XRB adopted a multi-standards approach, concluding that for-profit and PBE sectors have different users and reporting objectives. XRB noted that PBE reporting is focused not only on resource providers, but also on service recipients, creating information needs that differ from those addressed by IFRS. As a result, the XRB concluded that separate PBE standards based on IPSAS would better meet user needs over time.



While a separate PBE standards framework was considered necessary, the XRB also recognised that the costs and benefits of financial reporting differ significantly across the PBE population. The Accounting Standards Framework therefore adopted a tiered approach to ensure reporting requirements remained proportionate to entity circumstances. The XRB considered tiers to be an important mechanism for balancing user needs and reporting costs. Entity size was viewed as a useful proxy for cost-benefit considerations because smaller entities generally have fewer users and more limited reporting resources. Public accountability was also retained as an important consideration for entities operating in capital markets or holding assets in a fiduciary capacity.

Background – rationale for PBE tiers and thresholds approach in the ASF

The final Accounting Standards Framework established a four-tier structure for PBEs:

- **Tier 1:** Publicly accountable PBEs and PBEs with expenses greater than $30 million apply full PBE Accounting Standards.
- **Tier 2:** Other PBEs apply the same recognition and measurement requirements as Tier 1 but with reduced disclosure requirements.
- **Tier 3:** PBEs with expenses of $2 million or less may apply Simple Format Reporting – Accrual.
- **Tier 4:** Eligible entities permitted to report on a non-GAAP cash basis may apply Simple Format Reporting – Cash.

This structure reflected the XRB's view that reporting requirements should remain aligned with user needs while providing more proportionate reporting options for smaller entities. The use of expenses as the primary size indicator reflected the view that expenses are generally a better measure of the scale of PBE activities than revenue, particularly in the public sector and not-for-profit environment.

Note:
In February 2024, the threshold between Tier 1 and Tier 2 was increased to $33 million, and the threshold between Tier 2 and Tier 3 was increased to $5 million (effective from 28 March 2024).

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

Proportionality in current PBE framework

Public Sector entities owe accountability to users who cannot require information directly. As economic significance increases, the benefits of comprehensive reporting become more likely to justify its cost. The current framework provides proportionality by allowing smaller Public Sector entities to apply simpler accrual or cash-based reporting rather than IPSAS-based standards.

Tier	Status	Criteria	Reporting framework	Rationale
Tier 1	GAAP	Public accountability or 'large' per XRB A1* (expenses > $33m)	Full PBE Standards based on IPSAS	For entities with the highest level of economic significance or public accountability.
Tier 2	GAAP	No public accountability and not 'large' per XRB A1(expenses < $33m)	PBE Standards based on IPSAS but with reduced disclosures (RDR)	For entities where full Tier 1 disclosures may not provide sufficient additional benefit (lower levels of economic significance or public accountability).
Tier 3	GAAP	No public accountability and expenses < $5m	Tier 3 Standard (simplified accrual)	For smaller Public Sector entities required to prepare GAAP financial statements, where comprehensive PBE Standards would be disproportionate.
Tier 4	Non-GAAP	No public accountability and not a 'specified not-for-profit entity' (i.e. operating payments of $140,000 or less in last two accounting periods)	Tier 4 Standard (cash)	For legislatively eligible small Public Sector entities where simple cash reporting supports basic accountability.

* Note that this is different to 'large' defined by the Financial Reporting Act 2013 for the purposes of requiring GAAP reporting

Who do we balance the costs and benefits of reporting for?

Population snapshot

- The Public Sector population includes government departments, local authorities, council controlled organisations, Crown entities, schools, tertiary institutions, and other entities that are set up by legislation to carry out a statutory function such as Schedule 4 entities of the Public Finance Act 1989.
- Some of the smaller entities often include:
  - Rural education activities programmes
  - Smaller council controlled organisations
  - Cemetery Trustees
  - Administering bodies
  - Airport authorities
  - Fish and Game Councils
  - Professional/industry Boards

Schools and for-profit public sector entities

- In the public sector, around 82% are schools which voluntarily report in Tier 2 (with 74% of schools eligible to report in Tier 3).
- For-profit public sector entities are also considered in this paper as they have the same accountability relationships but report under the for-profit framework.

Tier	Public sector entities*	Public sector entities (schools adjusted to tiers eligible for)	For-profit public sector entities*
Tier 1	189	189	111 (applies NZ IFRS)
Tier 2	2,602	792	90 (applies NZ IFRS RDR)
Tier 3	169	1,979	
Tier 4	40	40	

* Estimated population by tier based on data collected from The Audit Office (July 2025)

What drives the need to balance costs and benefits of reporting?

The need for proportionality may differ across the PBE population.

Entity capability

- Compliance costs generally represent a larger proportion of expenditure for smaller entities.

User engagement

- Many public sector entities report to users who are largely represented through broader accountability mechanisms (Parliament, Ministers, Councils, Treasury).
- More information on users is covered in the Public Sector Tier 1 and 2 framework options analysis paper, and in the PBE Tier 3 and Tier 4 framework options analysis paper

Accountability relationships

- Public sector entities are generally accountable for taxpayer/ratepayer resources and often operate within broader legislative and reporting frameworks (budgets, long-term plans and appropriations).

Population characteristics

- The public sector population is relatively small but often significant for a number of reasons, given the key services they provide to New Zealand.

Refer also to the cost-benefit assessment in the PBE conceptual framework par 3.35-3.40

Qualitative aspects to consider for tiers and thresholds

Alongside the quantitative considerations, decisions on the tiers and the thresholds have qualitative dimensions. The factors below provide context for the tier and threshold considerations explored throughout this paper.

Serving users and the public interest

- **User needs –** first and foremost – who the primary users are at each tier, and what their information needs are.
- **Public accountability –** whether an entity has, or can obtain, public accountability (e.g. through issuing debt instruments or stewardship of public funds) rather than being placed in a tier by size alone.
- **Comparability –** how far users need statements to stay comparable across entities and over time, and the point at which simplification between tiers erodes that comparability.
- **International alignment vs local relevance –** balancing international alignment against what is relevant and practical for NZ preparers and users (acknowledging it is a framework standards question, but still relevant in considering it when drawing tier and threshold boundaries) .

Proportionate, coherent and workable

- **Preparer capability and understandability –** whether preparers at each tier can realistically apply the requirements, and whether the resulting statements stay understandable to their users.
- **Proportionality –** matching the reporting obligation at each tier to the size, complexity and public interest of the entity, weighing compliance cost against the benefit to users so requirements stay proportionate.
- **Sector and legislative alignment –** keeping tier and threshold boundaries coherent across the for-profit and PBE, and considering alignment with the FRA and other statutory reporting thresholds.
- **Stability and transition mobility –** avoiding models that make entities “seesaw” between tiers, and allowing transition relief for those moving up or down.

Key challenges

Public Sector tiers and thresholds: how the agreed challenges guide the analysis

See the Appendix for the wider PBE sector challenges and context that underpin this Public Sector analysis. The following analysis considers how these challenges arise in the Public Sector and whether they justify changes to the current framework.

Agreed challenge	Public Sector context	Focus of the Public Sector analysis
1. Complexity in applying the framework	Complexity can arise from the interaction between legislation, XRB A1 (including moving between tiers), tier criteria and GAAP and non-GAAP reporting.	Whether the structure could be simpler and more coherent, particularly by presenting non-GAAP reporting separately. *Covered in the current framework and GAAP/non-GAAP analysis.*
2. Public accountability has a limited role	Public Sector accountability relationships are broad, while public accountability as defined in XRB A1 is a narrower technical criterion.	Whether the criterion continues to add value as a separate Tier 1 criterion. *Covered in the public accountability analysis.*
3. Ensuring tiers remain meaningful and proportionate	Public Sector entities differ substantially in size and circumstances. Existing tiers provide different levels of reporting, but some distinctions may be more meaningful than others.	Whether each tier has a clear, proportionate role and whether expenses remain an appropriate basis for allocating entities between tiers. *Covered in the Tier 1 and Tier 2, Tier 3, and threshold analysis.*
4. Different needs across the PBE sector	Public Sector entities operate within different accountability, funding and reporting arrangements from NFP entities.	Whether these differences support different Public Sector options or conclusions. *Addressed throughout the paper*

Analysis of Public Sector tiers and thresholds

Public Sector tiers and thresholds

GAAP and non-GAAP, three frameworks, four tiers

The architecture has three distinct frameworks. Within PBE Standards, Tier 2 adds proportionality through reduced disclosures. This structure provides simplified reporting at the lower end and comprehensive reporting at the upper end.

GAAP		Non-GAAP
Over $5m in expenses	**Under $5m in expenses**	**Legislative threshold: operating payments below $140,000 in the previous two periods**
PBE Standards **Comprehensive accrual framework** Two tiers with different levels of disclosure: • Tier 1 • Tier 2 – RDR Stronger indicators of the need for comprehensive GPFR: public accountability, economic significance and separation of management from those to whom the entity is accountable. Contains a large share of Public Sector entities, where even with a schools adjusted population it would be significant. Very economically significant.	**Tier 3 PS Standard** **Simplified accrual framework** **Tier 3** For smaller, simpler entities where PBE Standards would be disproportionate. GPFR pillars are present, but less strongly than in Tiers 1 and 2. Not intended to scale to greater complexity. Entities may need to refer to PBE Standards for transactions Tier 3 does not address. A small share of Public Sector entities, but would become the largest share under a schools adjusted population. A small share of the sector's economic significance.	**Tier 4 PS Standard** **Simple cash reporting framework** **Tier 4** Responds to policy intention of very simple cash reporting for accountability by the smallest PBE entities. Terminology and categories resemble Tier 3, but the cash basis represents a fundamental accounting change. The smallest share of Public Sector entities, with very little economic significance.

Tier 3 to Tier 2: a steep increase in the volume and complexity of requirements.

We do not have evidence that Tier 4 Public Sector entities currently opt into Tier 3.

Tier 2: Public Sector

Ensuring tiers remain meaningful and proportionate

- Tier 1 and Tier 2 entities often have similar accountability relationships

In the Public Sector, Tier 1 and Tier 2 entities may often have similar accountability relationships. Both tiers steward public resources and are often accountable to taxpayers, ratepayers, Ministers, Parliament, councils or local communities. Many Tier 2 entities sit within wider reporting groups. Most central government Tier 2 entities consolidate into Crown financial statements, and many local government Tier 2 entities consolidate into council group financial statements.

This may raise the question of whether a separate Tier 1 and Tier 2 is meaningful in this accountability environment.

Considerations

- Proportionality is not just linked to accountability but to economic significance too, and a distinction in Tiers reflects that difference in economic significance.
- Reduced disclosures is a well embedded and established proportionality mechanism in NZ
- Provides some proportionality while supporting consolidation with common recognition and measurement requirements.
- Practical benefit/cost savings of reduced disclosures is not necessarily well known:
  - Tier 2 entities may often have simpler activities, where full disclosure may not be material or simpler to complete regardless
  - Requiring full disclosure would allow Tier 2 entities to apply entity specific materiality to full disclosures and consider their users
- Removing Tier 2 would increase the gap in complexity of requirements between Tier 1 and Tier 3. However, that gap may be less problematic in the public sector given its accountability environment, funding arrangements and group reporting structures.

Staff view

- Retaining Tier 2 with reduced disclosures appears preferable to introducing a separate reporting framework or recognition and measurement differences from Tier 1.
- However, we have limited evidence regarding the benefits and cost savings of reduced disclosures and whether Tier 2 is needed and meaningful.
- **At this stage, there does not seem to be a major case for any change but this is a key question to be tested via consultation.**

Tier 3: Public Sector

Ensuring tiers remain meaningful and proportionate

- Tier 3 serves a very broad range of entities (wide spectrum).

Our PBE sector challenges observed that Tier 3 spans a wide range of entity sizes and circumstances, from very small entities to entities with expenses approaching $5 million. However, this may be a less relevant observation and challenge in the public sector given Tier 3 currently serves only a relatively small public sector population.

If eligible schools were to use Tier 3, this observation may become more relevant and may have consequences for the fit of the Tier 3 requirements.

Considerations

- Tier 3 provides materially simplified accrual reporting for smaller entities.
- Existing Tier 3 entities commonly remain subject to audit and other accountability mechanisms.
- There is limited evidence of widespread reporting difficulties among current Tier 3 users.
- Eligible schools currently use Tier 2 for sector-specific reasons relating to consolidation, consistency and reporting arrangements, and their use of Tier 2 does not, by itself, indicate that Tier 3 is inappropriate.

Staff view

- Tier 3 continues to provide a proportionate simplified accrual reporting framework for smaller public sector entities.
- Its relevance does not necessarily depend on schools moving to Tier 3; rather, it provides proportionality where needed.
- Future consideration of Tier 3 could consider whether additional requirements may better address user needs, sector consistency and consolidation requirements – which may better future-proof this tier for any future changes in population.

Public sector tiers and thresholds - observations

What the analysis tells us about Public Sector tiers

Findings reflect the public sector tier analysis alone; final recommendations will consider the wider ASF.

Works

The current structure broadly works

- Legislation brings very different-sized entities into GAAP
- Tier 3 gives simplified accrual reporting for smaller entities
- No clear proportionality gap between Tier 3 and PBE Standards that would point to a need for another tier or framework

Meaningful role

Tier 3 has a meaningful role

- Population shaped by schools' elective use of Tier 2
- Schools' use of Tier 2 doesn't make Tier 3 inappropriate
- A small population doesn't reduce the value of a proportional option

Open question

The main question concerns Tier 2

- Tier 1 and Tier 2 have similar accountability
- They differ mainly in economic significance
- Benefits of reduced disclosures are not well understood

Staff view

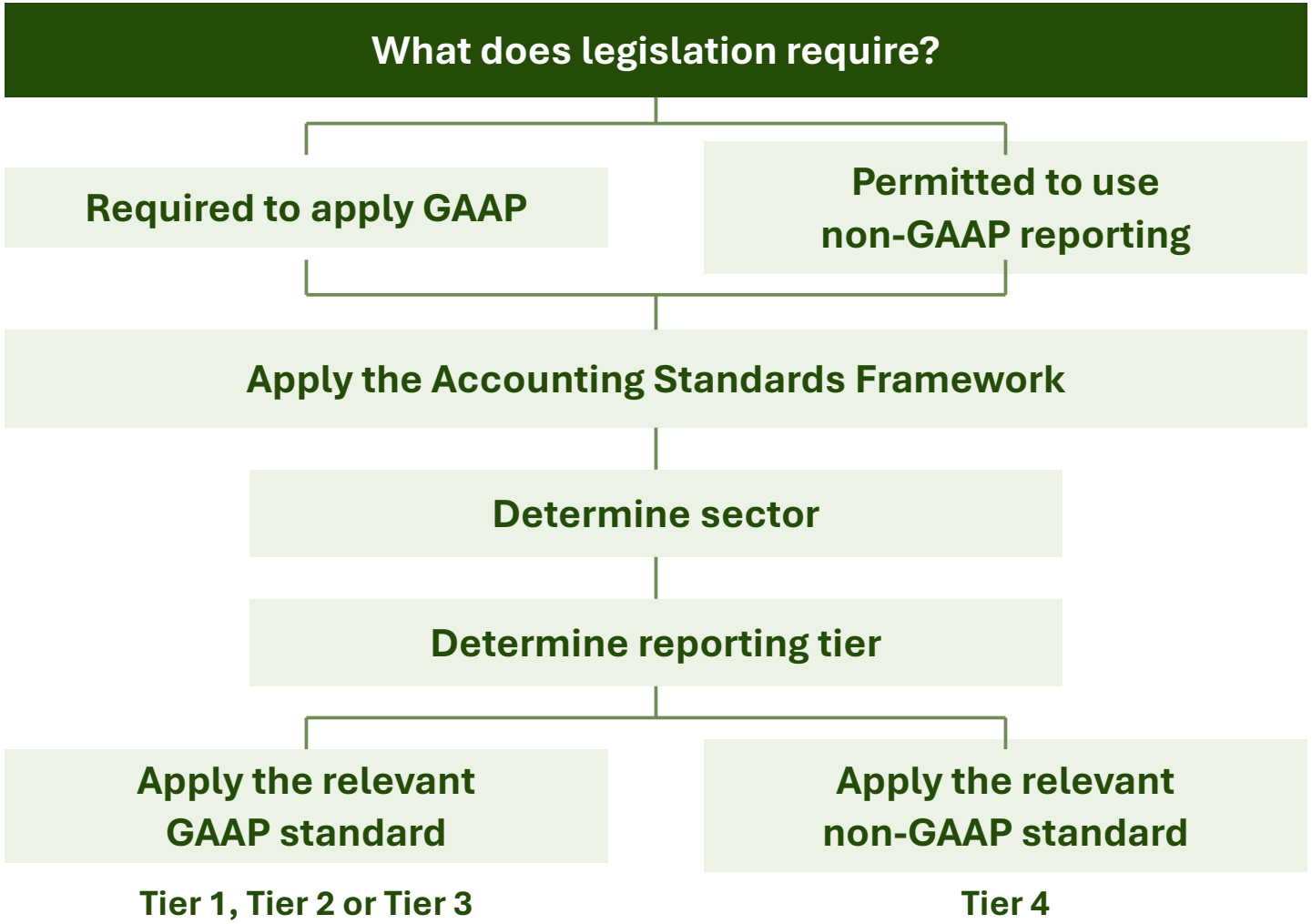
Existing structure is broadly proportionate; Tier 3 gives meaningful simplification for smaller entities. Given the wider reporting and accountability environment the differences between PBE Standards and Tier 3 seems less impactful.

Key question: is Tier 2 reduced disclosure both needed and meaningful?

Non-GAAP/GAAP reorganisation

Legislation determines the GAAP or non-GAAP reporting pathway

Current-state: Through the definition 'specified not-for-profit entity', the legislation directs entities to either apply GAAP or permits them to apply Non-GAAP. Both these pathways lead into a detailed application of the ASF:



Key observations

- The ASF currently presents cash-based, non-GAAP reporting as Tier 4 alongside the three GAAP tiers.
- Legislation generally determines whether an entity must apply GAAP or may use non-GAAP reporting before the ASF applies.
- Should GAAP and non-GAAP reporting continue to be presented in the same hierarchy of four tiers?
  - Permission to use non-GAAP reporting does not necessarily preclude electing GAAP.

An alternative: Cash-based reporting could sit outside the GAAP tier structure

Under this alternative, cash-based reporting would be presented as a separate Non-GAAP standard outside the tier structure. Sector and tier allocation would apply only where GAAP is required or elected.

GAAP reporting

Legislation requires GAAP → Determine sector → Determine tier → Apply relevant GAAP standard

Non-GAAP reporting

Legislation permits Non-GAAP reporting → Apply the applicable Non-GAAP standard

Potential benefits/costs

- Better reflects the legislative distinction and pathway between GAAP and non-GAAP reporting and simplifies the ASF by keeping sector and tier allocation to just the GAAP pathway.
- Presents a change to the organisation of the framework and may result in initial confusion for a large subset of reporters
- Stakeholders may not engage in legislation, and therefore misunderstand the Non-GAAP standard, and XRB communication.

What would change?

- Cash-based reporting would no longer be presented as Tier 4 and would sit separately from the GAAP tier structure.
- The GAAP tier structure would comprise Tiers 1–3.
- The Tier 4 NFP Standard and the Tier 4 PS Standard would need to be converged into one Non-GAAP Standard that could apply to either a public sector entity or a not-for-profit entity.

Staff view

This alternative may help address the structural complexity highlighted throughout the review. Staff consider it worth testing through consultation.

Tier options

Public Sector tier options

Staff initially considered a wider range of possible tier structures across the PBE sector. Following, further sector-specific analysis, we have narrowed the options to those that most directly respond to the issues identified in this sector. Other structures considered, and why they are not proposed for consultation, are summarised in the Appendix.

The Public Sector analysis has not identified a need for fundamental redesign or an additional reporting framework. These options respond to the challenges of complexity and meaningful proportionate tiers by testing whether Tier 2 continues to provide sufficient benefit and remains meaningful.

For comparison with the current ASF, the options are described as four-tier and three-tier structures. If non-GAAP reporting is presented separately, these would comprise three or two GAAP tiers respectively, plus a separate non-GAAP standard.

Option 1: Retain four tiers

Retain the four-tier structure for Public Sector reporting.

This option keeps Tier 1, Tier 2, Tier 3 and Tier 4.

This option reflects the view:

- that the current tier structure remains broadly proportionate for the Public Sector; and
- that wholesale change is not required to continue to deliver accounting standards to the Public Sector that appropriately balances costs and benefits of reporting.

Option 2: Remove Tier 2

Remove Tier 2 and move to a three-tier structure.

This option would further simplify the ASF for the Public Sector by:

- merging Tier 2 into the current Tier 1 population, and
- retaining Tier 3 and Tier 4

This option reflects the view:

- that Tier 1 and Tier 2 entities have broadly similar accountability relationships; and
- that the disclosure relief available in Tier 2 is either not needed or does not provide sufficient benefit to justify a separate tier and threshold.

Public sector tier option 1

Retain four tiers – Three Tiers of GAAP reporting, and a Non-GAAP standard

This option largely reflects the proportionality that exists in the current ASF without any substantive change.

GAAP	Non-GAAP
Thresholds to be determined	**Legislative threshold: operating payments below $140,000 in the previous two periods**

Comprehensive accrual framework

PBE Standards

Two tiers with different levels of disclosure:

- Tier 1
- Tier 2 – RDR

Retain proportionality at the Tier 1 and Tier 2 level.

Simplified accrual framework

Tier 3 PS Standard

- Retain the existing Tier 3 Standard

Non-GAAP Standard

Simple cash reporting framework

- Existing Tier 4 PS/NFP Standard

Public Sector tier option 2

Remove Tier 2 – Two Tiers of GAAP reporting, and a Non-GAAP standard

This option would remove Tier 2, effectively merging the population into Tier 1, while retaining Tier 3 and Tier 4.

GAAP	Non-GAAP
Thresholds to be determined	**Legislative threshold: operating payments below $140,000 in the previous two periods**
Comprehensive accrual framework • Existing PBE Standards	**Simplified accrual framework** • Existing Tier 3 PS Standard	**Non-GAAP Standard** **Simple cash reporting framework** • Existing Tier 4 PS/NFP Standard

Option 1: Retain four tiers

Retain the current role of the tiers on the basis that they provide a suitable and proportionate structure for the Public Sector. The assessment below considers the option against the key challenges identified for the Public Sector, including simplicity, proportionality and whether the tiers are meaningful.

Tier 1	Tier 2	Tier 3	Non-GAAP
Comprehensive reporting	Reduced disclosures	Simplified accrual reporting	Cash reporting

Strengths:

- Provides stability and continuity and maintains a framework that appears broadly proportionate for the current public sector population.
- Supports a range of different needs across the Public Sector, with larger/more accountable entities and smaller entities subject to scaled requirements.
- Retains existing distinctions across the framework, and limited changes for entities remaining within their current tiers.

Weaknesses:

- Limited evidence is available regarding the practical benefits and cost savings of Tier 2 reduced disclosure reporting.
- The distinction between Tier 1 and Tier 2 may be difficult to justify if disclosure relief provides limited practical benefit.
- Retaining the current structure may preserve some complexity where simplification of tiers could be possible.

Overall balance:

The current four-tier structure appears broadly proportionate for the public sector. It accommodates entities with significantly different reporting needs, preserves simplified reporting for smaller entities and avoids unnecessary disruption. The principal uncertainty is whether Tier 2 reduced disclosures provide sufficient practical benefit to justify retaining a separate tier.

RAG rating PS: ●

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

Option 2: Remove Tier 2

Remove Tier 2 so that current Tier 2 entities apply PBE Standards, while retaining Tier 3 simplified accrual reporting and non-GAAP cash reporting. The assessment below considers the option against the key challenges identified for the Public Sector, including simplicity, proportionality and whether the tiers are meaningful.

Tier 1	Tier 3	Non-GAAP
Comprehensive reporting	Simplified accrual reporting	Cash reporting

Strengths:

- Simplifies the overall tier structure by reducing the number of reporting tiers.
- Recognises that many current Tier 1 and Tier 2 entities may exhibit similar public accountability characteristics and already apply the same recognition and measurement requirements.
- May make the framework easier for stakeholders to understand and navigate.

Weaknesses:

- Current Tier 2 entities would be required to apply the full suite of PBE Standards disclosures, potentially increasing reporting costs without providing corresponding benefits to users.
- Removes the option for disclosure-based proportionality for entities below the highest level of economic significance.

Overall balance:

This option would simplify the public sector tier structure and remove a separate tier whose practical benefits are not well understood. However, current Tier 2 entities could face additional disclosure requirements, and the option would remove an established means of providing proportionality. Its merits therefore depend on whether Tier 2 disclosure relief provides meaningful practical benefits.

RAG rating PS: 

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

Threshold options

How we narrowed the threshold approaches

We considered both what thresholds should measure and how those measures could be applied.

A range of threshold indicators and models could potentially be used to allocate entities between tiers.

Indicators considered

What could the threshold measure?

- Expenses
- Revenue
- Assets
- Employee numbers
- Public interest
- Funding sources

Models considered

How could the indicators be applied?

- Single indicator
- Either/or test
- Both test
- Multi-factor test

Approaches proposed for consultation

Which approaches remain most relevant?

Expenses only

Continue to use expenses as the primary measure of operating scale.

Expenses OR assets

Expenses with a supplementary asset threshold: retain expenses, add assets as a supplementary indicator, and move an entity to the higher tier if either threshold is exceeded.

Why have we narrowed the approaches?

Revenue provides similar information about annual activity but may be more volatile. Additionally, users are less interested in revenue from an accountability perspective.

Employee numbers, public interest and funding sources introduce greater judgement or complexity.

A both test may miss an entity that is significant on only one measure.

Assets are the main indicator considered that could supplement expenses by capturing stewardship.

Conclusion: Other indicators and models may capture additional aspects of size, complexity or accountability, but staff have not identified a sufficiently strong case for progressing them given the additional judgement or complexity they would introduce.

Detailed analysis of the other indicators and threshold models considered is provided in the appendix.

Public Sector threshold options

Staff propose progressing expenses only and expenses OR assets for Public Sector consultation.

Quantitative thresholds are used to differentiate entities by size within the tier structure, supporting a proportionate balance between reporting benefits and costs. Expenses are the current measure of size because they reflect annual operating activity. An asset test could provide an additional measure where expenses do not fully reflect the scale of resources under stewardship.

1. Expenses only

RAG rating PS: 🟢

Retains the original policy approach

Expenses measure annual operating activity and resources used, and avoids complexity surrounding asset tests.

Why retain expenses for the Public Sector

- Expenses provide a simple, well-understood measure of operating scale and service delivery.
- The approach maintains continuity with the current framework and is readily self-assessed.
- It avoids valuation solely for tier assessment and reduces the risk of volatile tier movements.

Main limitation

Expenses may not fully capture the significance of entities with substantial public assets but relatively low annual expenditure.

2. Expenses OR assets

RAG rating PS: 🟠

Broadens the approach

Either substantial operating activity or asset stewardship could independently result in higher-tier reporting.

Why consider an asset test for the Public Sector

Assets may capture economic significance that expenses miss. Public accountability relates to both resources used and resources held. An asset test may better capture some infrastructure, heritage, property and foundation entities.

May add complexity for little benefit in the Public Sector

We have not identified instances where the current expense threshold may be leading to inappropriate reporting outcomes.

The model is more complex than expenses only. Valuation costs and volatility, specialised or restricted assets, and the choice of gross or net assets may need further consideration in developing a threshold.

🟢 Strong fit / low concern
🟠 Mixed fit / medium trad 75 concerns
🔴 Significant trade-off concerns

Setting the threshold values

Threshold indicators and model determine how significance is measured. However, threshold values ultimately determine which entities must apply which tier.
The following considerations should determine the objectives that threshold settings should achieve, and guide where, and when, the Tier 1, Tier 2 and Tier 3 threshold values are ultimately set. These cannot be considered in isolation and must be reflected within the tier structure, tier indicator, sector and framework decisions.

Desired outcomes

- Determine which entities should sit within each reporting tier and the characteristics that each tier is intended to capture.

Tier	Current intended population
Tier 1	Highest accountability / significance
Tier 2	Significant entities where full Tier 1 disclosures are not needed
Tier 3	Smaller-sized entities requiring simplified reporting
Tier 4	Small entities where simple reporting remains appropriate

- Thresholds should avoid unnecessarily moving PBEs into higher reporting tiers where compliance costs may outweigh benefits.
- Threshold settings should create meaningful distinctions between tiers and ensure entities with similar circumstances are grouped together.
- Maintain a degree of stability once an entity's reporting tier has been established, while recognising that entities near tier boundaries may experience greater uncertainty and transition pressures.

Alignment between public sector and not-for-profit sector

- Public sector and not-for-profit sectors have different populations, accountability relationships and reporting environments. Future threshold settings may need to consider whether common or sector-specific outcomes are appropriate.
- Feedback from stakeholders suggests proportionality pressures may differ between sectors. For example, concerns relating to reporting burden are more commonly raised in the NFP sector, while some public sector populations voluntarily opt into higher reporting requirements.
- Any sector-specific threshold settings should be balanced against maintaining a coherent ASF

Legislative settings, MBIE, and for-profit considerations

- Continued focus on accountability settings within PBE framework
- Tier 4 threshold is legislated and may constrain threshold outcomes
- Incorporated societies ‘small society’ carve out signals policy interest in reducing burden on smaller NFP entities
- Legislative developments should be considered alongside ASF objectives when determining threshold values.
- Divergence from for-profit threshold settings could create opportunities for entity arbitrage (for-profit public sector entities)

Staff preliminary view: Staff do not consider it appropriate to identify preferred threshold values until decisions regarding tier structure, sector settings and threshold indicators are further developed. Population analysis and stakeholder feedback could be used to test whether proposed values achieve the desired outcomes.

Other tier considerations

Does a separate public accountability criterion continue to add value in the public sector?

Public accountability

Public sector entities are generally accountable to Parliament, Ministers, councils, taxpayers, ratepayers and communities. However, public accountability as defined in XRB A1 principally captures entities that access public capital markets or hold assets in a fiduciary capacity as a primary business, together with entities deemed to have public accountability under New Zealand's higher levels of public accountability (HLPA) arrangements.

The criterion appears to have limited practical effect

- We are not aware of a current public sector entity that is allocated to Tier 1 solely because it meets the defined public accountability criterion.
- Entities meeting the criterion are likely to exceed the Tier 1 expense threshold.

The definition of Public Accountability was explored separately

- The earlier public accountability paper recommended no further exploration of the XRB A1 definition unless the broader ASF review or consultation identifies a reason to reconsider it.
- The definition is internationally anchored, linked to New Zealand legislation and HLPA arrangements, and recently amended to address application issues.

Staff view

Staff consider it appropriate to test through consultation whether the safeguarding value of retaining a separate public accountability criterion outweighs the benefit of simplifying the framework for PBEs.

Issue to explore

- Whether the benefits of retaining a separate public accountability criterion continue to outweigh the additional framework complexity created by a separate Tier 1 criterion.
- Consider its practical effect, wider framework rationale and continuing safeguard.
- Even where legislation permits an entity to use Tier 4 non-GAAP reporting, the ASF separately says that a PBE with public accountability applies Tier 1.

Possible continuing rationale

- The criterion may still capture an unusual or future entity whose capital-market or fiduciary accountability is not adequately reflected by size.
- It also maintains alignment with the wider Accounting Standards Framework, international practice and New Zealand's legislative arrangements.

For-profit public sector entities

Why is there a separate threshold?

The public sector includes around 200 for-profit entities that apply NZ IFRS, some of which are economically significant. These entities carry similar accountability responsibilities and operate in the public interest similar to other public sector entities.

Accordingly, the separate expense threshold that applies to for-profit public sector entities ensures that economically significant public sector entities are subject to Tier 1 reporting, regardless of whether they apply PBE Standards or NZ IFRS.

Historical rationale (BC18 and BC30 of XRB A1)

- The ASF uses the same $33 million expense threshold for large public sector PBEs and for-profit public sector entities. This was intended to support consistent Tier 1 outcomes across the public sector and avoid differences arising solely from whether an entity is classified as a PBE or a for-profit entity.
- The threshold also helps prevent opportunities for arbitrage and reflects the Board's view that entity classification alone should not determine access to a lower reporting tier.

Considerations

- The criterion can be difficult to understand alongside other for-profit reporting requirements. XRB A1 uses the term “large for-profit public sector entity” for its expense-based Tier 1 test, while “large” is separately defined in legislation using asset and revenue measures. The same terminology therefore describes different tests for different purposes.
- Removing the threshold would align Tier 1 allocation with the ordinary for-profit public accountability criterion, allowing some economically significant for-profit public sector entities to report in Tier 2.

Preliminary staff view

Staff consider that, under a sector model where public sector entities may be classified as for-profit, a separate Tier 1 threshold aligned with the PBE Tier 1 threshold remains appropriate. It supports consistent Tier 1 outcomes for economically significant public sector entities regardless of whether they apply PBE Standards or NZ IFRS.

Consultation could test whether this rationale continues to outweigh the additional complexity, including the use of “large” differently from its legislative meaning, and whether the current threshold remains appropriate.

Preliminary view and Board decisions

Preliminary view and Board decisions

The current ASF continues to provide a broadly coherent basis for reflecting differing levels of accountability and significance within the public sector. Noting:

The Board is asked to note the analysis on Public Sector tiers and thresholds. The following decisions are sought from the Board:

	Staff preliminary view	Decisions sought from the Board
1	**Tier structure** Current four-tier structure remains broadly appropriate, but consultation should test whether the proportionality provided by Tier 2 reduced disclosures remains needed and meaningful.	**Agree the tier options for discussion** Four tiers: retain the current structure. Three tiers: remove Tier 2, merge its entities into Tier 1, and retain Tiers 3 and 4.
2	**Threshold approaches** Expenses remain a broadly appropriate size measure, but consultation should test whether an expenses-or-assets approach would better allocate some entities between tiers.	**Agree the threshold approaches** Include expenses only and expenses-or-assets in the discussion paper to test operating scale and asset stewardship.
3	**Public accountability** Public accountability may continue to provide a useful Tier 1 safeguard and supports consistency with the wider ASF, but consultation should test whether these benefits justify retaining it as a separate criterion.	**Agree to consult on public accountability** Seek views on whether public accountability, as currently defined in XRB A1, should remain a separate Tier 1 criterion for public sector entities.
4	**For-profit entities** A for-profit public sector threshold aligned with the PBE sector remains appropriate.	**Agree to consult on for-profit public sector entities** Seek views on retaining a separate Tier 1 threshold for for-profit public sector entities.
5	**Non-GAAP reporting** Presenting Non-GAAP reporting separately from the tier and sector structure is more coherent with legislative reporting pathways.	**Agree to explore the reorganisation of non-GAAP reporting within the ASF** Seek views on whether the Non-GAAP standard should be reorganised outside the sector/tier structure of the ASF and converged into a single Non-GAAP standard applicable to both sectors.

Threshold settings should remain indicative until preferred strategy and outcomes are agreed.

Appendices

Legislative context

- Much of the public sector is required to prepare GAAP financial statements because of its nature and accountability obligations rather than its size.
- Legislative "large" thresholds play a more limited role in determining whether many PBEs report under GAAP than they do in some private-sector contexts.
- For many PBEs, the proportionality question is therefore less about whether GAAP applies and more about which reporting requirements should apply within the ASF.

Primary legislation	Entity type	GAAP requirement
Public Finance Act 1989	Govt departments/agencies	• All are required to prepare GAAP financial statements irrespective of size (except where non-GAAP reporting / Tier 4 may be allowed) – there is no 'large' threshold contained in this group of legislation. • ASF determines applicable reporting tier, not whether reporting is required
Crown Entities Act 2004	Crown entities	
Local Government Act 2002	Local authorities	
Education and Training Act 2020	School boards	

Appendices
PBE sector challenges

Current and emerging considerations relevant to PBE tiers and thresholds

1. Economic growth and inflation since the ASF was established

- Thresholds were largely designed between 2009–2012.
- Inflation and nominal growth may have shifted entities into higher tiers without corresponding increases in complexity or accountability.
- Updated PBE tiers and thresholds issued in February 2024 was an interim measure awaiting ASF review

2. Changes in PBE reporting populations

- Incorporated societies now fall within the external reporting framework.
- Small incorporated societies receive specific legislative relief through a separate reporting regime.
- The composition of entities applying Tier 3 today may differ materially from the populations that informed the original framework design.

3. Ongoing questions regarding suitability of reporting frameworks

- Stakeholders continue to raise questions regarding the appropriateness of IPSAS-based requirements for some public sector and not-for-profit entities.
- Questions remain about whether current reporting requirements remain appropriately targeted across the PBE sector.

Collectively, these developments raise questions about whether the current PBE tiering framework continues to provide the most appropriate balance between accountability, user needs and proportionality across both the public sector and not-for-profit sectors.

Current and emerging considerations relevant to PBE tiers and thresholds

4. Availability of alternative reporting frameworks internationally

- International reporting frameworks continue to develop, including initiatives focused on the not-for-profit sector, such as International Not-for-Profit Accounting Standards (INPAS).
- These developments may provide additional perspectives on delivering proportionate reporting.

5. Accountability expectations and proportionality

- Accountability remains a central consideration within both the public sector and not-for-profit sectors.
- Incorporated societies legislative reform reflects policy intentions to improve accountability and modernise governance and reporting functions
- The current framework primarily uses public accountability and size-based thresholds to determine reporting requirements.

6. Ongoing focus on reducing unnecessary compliance costs (NZ Govt Policy)

- New Zealand regulators continue to emphasise regulatory efficiency and proportionality.
- The original rationale for tiers in the ASF was to balance reporting benefits against preparer costs.

Collectively, these developments raise questions about whether the current PBE tiering framework continues to provide the most appropriate balance between accountability, user needs and proportionality across both the public sector and not-for-profit sectors.

PBE tiers and thresholds - key challenges

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

1. Applying the framework can be more complex than expected

- Determining expenses depends on the applicable reporting framework.
- The framework includes a mixture of XRB and legislative thresholds.
- The ASF uses current-year assessments, while legislation often uses prior-year thresholds, creating complexity and different transition outcomes.
- Tier movement provisions can be difficult to apply.

2. Public accountability has limited role in PBE sector

- Public accountability is an overriding test for Tier 1 but applies to relatively few PBEs.
- Entity size therefore becomes the dominant determinant of reporting requirements.
- The defined term ‘public accountability’ may not align with general public sector and NFP understanding of public accountability.

3. Ensuring tiers remain meaningful and proportionate

- Some Tier 4 entities often opt into Tier 3 (due to accrual basis)
- Tier 3 serves a very broad range of entities (wide spectrum).
- The transition from Tier 3 to Tier 2 can be significant.
- Tier 1 and Tier 2 entities often have similar accountability relationships – do separate tiers remain meaningful and sufficiently proportionate?

4. Different needs across the PBE sector

- Public sector and NFP entities have different accountability relationships.
- User needs and reporting environments may differ across those sectors.
- A single proportionality model may not always accommodate those differences equally well.

Appendices
PBE tier and threshold options considered

Exploring alternative Tier structures (for public sector and NFPs)- staff analysis

Options

Current tier structure

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3 → Tier 3
Tier 4 → Tier 4

No change

RAG rating PS: 🟢
RAG rating NFP: 🟢

Recommendation: Include in DP

1. Five tiers (new T3)

Create an additional Tier between current T2 and T3

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3
Tier 3 → Tier 4
Tier 4 → Tier 5

Bridges steep T3 to T2 transition (entities and users), reduces diversity in current T3. (Tier 3 upscale)

RAG rating PS: 🟡
RAG rating NFP: 🟡

Recommendation: Include in DP

2. Three tiers

Combine current T1 and T2

Tier 1, Tier 2 → Tier 1
Tier 3 → Tier 2
Tier 4 → Tier 3

Reflect similar accountability between T1 and T2 entities

RAG rating PS: 🟡
RAG rating NFP: 🟢

Recommendation: Include in DP

3. Four tiers with a redefined T2

Combine T1 and T2, and create a new T2 (mix of option 1 and 2)

Tier 1, Tier 2 → Tier 1
Tier 2
Tier 3 → Tier 3
Tier 4 → Tier 4

Reflect similar accountability between T1 and T2 entities and bridge T3 to T2 transition

RAG rating PS: 🟡
RAG rating NFP: 🟢

Recommendation: Include in DP

4. Five tiers (new T4)

Insert a Tier between current T3 and T4.

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3 → Tier 3
Tier 4
Tier 4 → Tier 5

Bridge accrual basis T4 to T3 (Tier 3 simplified and upscale Tier 3)

RAG rating PS: 🔴
RAG rating NFP: 🟡

Recommendation: Include in DP

🟢 Strong fit / low concern
🟡 Mixed fit / medium trade-off concerns
🔴 Significant trade-off conc

Public Sector Tier structures not proposed

Staff do not recommend consulting on additional tier structures.

Why another tier is not justified

Staff considered whether another tier could improve public sector proportionality but have not identified a sufficiently distinct population or reporting function to justify one.

Public Sector entities commonly operate within similar accountability and group-reporting environments, which can provide benefits from applying common recognition and measurement requirements. Another framework could therefore add complexity and cost without providing significant additional benefits.

Concerns about particular requirements may be better addressed within the existing standards than through another tier.

An additional tier would require

- another reporting framework or set of requirements;
- another eligibility boundary;
- another threshold;
- additional transition requirements; and
- ongoing standard-setting and maintenance.

Staff view

The public sector discussion paper should focus on retaining or merging Tiers 1 and 2, rather than presenting additional tier structures.

Threshold approaches- staff analysis

1. Expenses only	2. Expenses OR Assets	3. Expenses AND Assets	4. Revenue OR Assets
Retains simplicity. Positioned to respond to inflation concerns, and number of entities required to apply T2.	Addresses concern that some PBEs can hold significant assets and report in lower tiers.	Addresses concerns that some PBEs find the reporting requirements disproportionate.	Provides consistency with other legislative thresholds.
RAG rating PS: 🟠	**RAG rating PS:** 🟢	**RAG rating PS:** 🟠	**RAG rating PS:** 🟠
RAG rating NFP: 🟠	**RAG rating NFP:** 🟢	**RAG rating NFP:** 🟠	**RAG rating NFP:** 🔴
Recommendation: Include in DP	**Recommendation: Include in DP**	**Recommendation: Include in DP**	**Recommendation: Not to include**

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

Public Sector thresholds not proposed

Staff do not propose progressing the following threshold approaches for the Public Sector. Consultation should focus on expenses only and expenses OR assets.

Expenses AND assets

Rationale previously considered

- Captures operating scale and public assets under stewardship, targeting entities significant on both measures.
- May avoid a higher tier based on one unusual or temporary characteristic.

Why not proposed

- Requiring both thresholds could leave significant Public Sector entities in a lower tier when only one measure is exceeded.
- Examples: a large service-delivery entity with few assets, or an entity holding significant public assets with low annual expenses.
- This conflicts with the proposition that either operating scale or asset stewardship may independently justify higher-tier reporting.
- Adds complexity over expenses alone without clearly improving identification of economically significant entities.

Revenue OR assets

Rationale previously considered

- Revenue reflects incoming resources and provides an alternative measure of scale.
- Combining revenue and assets recognises both incoming resources and accumulated public resources under stewardship.
- Reflects criteria used in primary legislation commonly applying to for-profit entities (‘large’ in the Financial Reporting Act 2013)

Why not proposed

- For many public sector entities, revenues and expenses are closely related measures of annual activity and scale, but revenue does not carry the same accountability focus that expenses do
- Revenue does not appear to provide significantly different information from expenses for the purpose of tier allocation.
- Expenses remain the more established and generally better understood basis for tier assessment in the public sector.
- An Expenses OR Assets approach can test whether asset stewardship independently warrants higher-tier reporting without replacing expenses with revenue

Appendices
Threshold indicators

Alternative threshold indicators and models

In light of the legislative settings and the characteristics that should drive proportionality, we have considered what indicators and/or combination of indicators would be most viable to use in the NZ environment.

Indicators (what should we measure to deliver proportionality)	Models (how do we apply the indicators)
• Assets • Revenue • Expenses • Employees (e.g. FTEs) • Public interest (e.g. Existence of specific user groups) • Funding sources (e.g. Dependency on public/donor funding)	• Single indicator model – one measure determines tier • Either/or model – exceeding either threshold indicator determines tier • Both model – exceeding both indicators determines tier • Multi-factor model – a combination of indicators exceeded (2 out of 3 etc.)

Staff view

- We consider there is merit in consistent threshold indicators across the public sector and NFP frameworks to support a coherent and simple ASF. There could also be some merit in these being consistent with the for-profit sector too. However, this would need to be balanced with the proportionality required of the different sectors.

Indicators

- Expenses, revenue and assets appear the most viable threshold indicators as they are objective, measurable and capable of consistent application across a broad range of PBEs.
- Employees, public interest, funding source indicators may capture important aspects of accountability, significance or capability that financial indicators do not capture, but they may be more volatile, difficult to measure and apply consistently as threshold measures.

Models

- Simpler threshold models are generally easier to understand, administer and apply consistently. However, multiple-indicator models may better reflect the diverse characteristics of PBEs and reduce reliance on any single proxy for proportionality.
- Staff consider there is merit in further exploring both:
  - A single-indicator model; and
  - The either/or model or the both model based on financial measures (for example expenses, revenue and/or assets).
- More complex approaches may provide greater precision but could introduce too much complexity.

Alternative financial threshold indicators

Indicator	Characteristic measured	Strengths	Weaknesses
Assets	Accountability, stewardship, public interest, resources controlled	Reflects extent of stewardship and public wealth/resources entrusted and controlled May better capture stewardship responsibilities than expenditure	Dependent on accounting policy choices Fluctuate due to revaluation approaches Might overstate activity levels (where assets passively managed)
Revenue	Economic significance, activity	Widely understood and used internationally (also consistent with thresholds used in legislation – 'large') Captures scale of funding, and often aligns more closely with public visibility	Often volatile and can overstate significance in comparison to complexity Does not necessarily reflect resources controlled Requires application of the relevant reporting framework to determine
Expenses	Operational scale, size	Existing approach and widely understood and used internationally Generally stable year on year Effective proxy for size and organisational scale and complexity Compliance burden somewhat linked to resources	Does not necessarily reflect resources controlled Requires application of the relevant reporting framework to determine
Employees (Full Time Equivalents)	Organisational sophistication, capability	May reflect management complexity and governance requirements Easy to understand and can capture scale of service delivery Less impacted by accounting treatments (or frameworks applied)	Constantly fluctuating Would not capture contracting or outsourcing Does not necessarily reflect resources controlled May involve administrative burden
Public interest (such as specific user groups or ability to levy taxes/rates)	Accountability, level of public interest by users who engage with financial information	Reflects significance beyond size alone Recognises that some entities may have substantial societal impact despite relatively modest revenue, expenses or assets. Could capture qualitative characteristics unique to PBEs that financial indicators do not reflect	Might be difficult to define, scale, and apply Introduce significant judgement May be difficult for entities to self assess
Funding sources	Accountability, dependency on public/donor funding	Reflects degree of reliance on taxpayer, donor or public funding and that there might be differing accountability expectations.	May not directly reflect reporting needs of users Might be difficult to define, scale, and apply Does not necessarily reflect resources controlled

Expenses as an indicator

Existing rationale

The ASF uses expenses as the principal size indicator and a proxy for complexity, reflecting users' interest in how PBEs spend money and their demand for financial information.

When the ASF was developed, expenses offered a useful proxy for activity and a more relevant, reliable indicator than revenue, which can vary with funding.

What expenses measure

Annual operating scale and resources applied to public services.

A proxy for transaction volume and, to some extent, organisational complexity and capacity to absorb reporting costs.

Strengths	Limitations
Familiar and easy to understand, with data already available in reporting records.	Low expenses can understate the significance of substantial assets or stewardship responsibilities.
Comparatively stable and closely linked to annual operating activity.	Expenses may not reflect public interest. Higher expenditure does not necessarily mean greater complexity.
Relevant across public sector entities and consistent with the current framework.	

Assets as an indicator

What assets measure

Resources controlled and stewardship responsibilities that expenses may miss.

Relevant holdings include infrastructure, property, heritage or conservation assets, investments and endowments. Examples include trusts and statutory bodies with significant land or facilities.

Important limitations

Some assets may be non-productive or held passively. High values can coexist with low annual activity and significant stewardship duties.

Values alone do not establish transaction complexity, reporting capability, managerial discretion or the practical burden of accountability.

Practical threshold choices

Measurement basis

Gross or net assets? How should the test treat specialised, restricted, heritage and non-productive assets?

Cost and stability

Valuation costs and revaluations may add burden or trigger tier changes without any change in activity.

Proportionality

Would higher-tier reporting provide a meaningful benefit for affected entities?

Evidence before a decision

A limited population analysis before or alongside consultation would:

- Identify public sector entities below expense thresholds with unusually high assets, and the types of assets they hold.
- Assess whether current tier placement understates their economic or stewardship significance.
- Test several illustrative asset thresholds and the resulting tier movements against expected reporting benefits.
- The conceptual case alone does not establish a material population problem. The final threshold need not be set now.

International approaches

International approaches to Public Sector proportionality

Public Sector proportionality generally resides in scope rather than size-based tiers

Jurisdiction	Reporting framework	Where does proportionality arise?
Australia	Australian Accounting Standards provide Tier 1 and Tier 2 general-purpose reporting. Tier 1 incorporates IFRS requirements with Australian-specific requirements; Tier 2 keeps Tier 1 recognition and measurement with simplified disclosures.	Legislation and government directions determine which public-sector entities report, so proportionality arises through both the reporting mandate and reduced disclosures. There is no equivalent of New Zealand's simplified Tier 3 Public Sector Standard.
Canada	Federal, provincial, territorial and local governments generally report under Canadian Public Sector Accounting Standards (PSAS). The federal government supplements PSAS with its own accounting handbook and policies for consolidated, departmental and quarterly reporting.	The main differentiation is between levels and types of public-sector reporting entities and their statutory reporting obligations. PSAS does not appear to use general size-based accounting tiers for smaller government entities.
United Kingdom	Central government applies an adapted IFRS-based government reporting framework; local authorities apply a separate IFRS-based local-authority code reflecting statutory requirements and public-sector guidance.	GPFS requirements are relatively broad. Proportionality largely comes through separate sector and statutory regimes.
United States	Federal entities apply federal GAAP developed by FASAB; state and local governments apply GAAP developed by GASB. These are separate frameworks for different reporting environments, not levels within one tier structure.	Proportionality arises mainly through which entities are required to prepare separate financial statements and through differing requirements for state and local government entities. It is not structured around general size-based accounting tiers.

Key observation
International Public Sector approaches do not generally use entity size to allocate entities between simplified and comprehensive accounting standards. Proportionality more commonly arises through legislation, different standards for different levels or types of government, materiality, and the exclusion or separate treatment of smaller public bodies.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Review of the Accounting Standards Framework (ASF)

Not-for-profit tiers and thresholds

NZASB meeting 24 November 2026

Agenda item 5.2b

Purpose of this agenda item

Purpose of this agenda item – Consideration of the tiers and thresholds model

This agenda item presents staff analysis of tier and threshold models for the Not-for-profit (NFP) sector.

This paper also seeks the Board's agreement on the NFP tier and threshold options that staff propose to include in the Accounting Standards Framework discussion paper.

In particular, the Board is asked to agree that the discussion paper should seek feedback on:

- Tier options - including retaining four tiers with alternative roles for Tier 2, or introducing a fifth tier to provide an additional accrual framework;
- Threshold options – including retaining expenses as the sole size indicator and introducing an expenses-or-assets indicator;
- the continued role of public accountability as an additional Tier 1 criterion; and
- Whether cash-based reporting should continue to be presented as Tier 4 or instead as a separate non-GAAP standard (outside of the tiering system).

The Board is not being asked to determine the final NFP tier framework or final threshold amounts. Those decisions will be informed by feedback on the discussion paper.

Feedback sought from the Board

Feedback sought – Consideration of the tiers and thresholds model

Key message: For the NFP sector, the current structure provides substantial proportionality, but there may be a gap between Tier 3 and comprehensive PBE Standards.

Tier options

- Does the Board agree that NFP tier options viable for consultation via the Discussion paper include:
  - Current four tier structure, with alternative roles for Tier 2
  - Five tier structure with an additional accrual framework
- Does the Board have any feedback on the analysis and evaluation of NFP tier options?

Threshold options

- Does the Board agree that NFP threshold options viable for consultation via the Discussion paper include:
  - Expenses only
  - Expenses or assets
- Does the Board have any feedback on the analysis and evaluation of NFP threshold options?

Public accountability

- Does the Board agree that the Discussion paper should seek views on whether Public Accountability should remain a Tier 1 criterion for the NFP sector?

GAAP and Non-GAAP distinction

- Does the Board have any feedback on reorganising the ASF by GAAP and non-GAAP standards prior to tier selection, and whether a common Non-GAAP standard could apply across Public Sector and NFP entities?

NFP tiers and thresholds landscape

Background – rationale for PBE tiers and thresholds approach in the ASF

The Accounting Standards Review Board (ASRB) 2009 Discussion Paper (DP) suggested that tiers and thresholds are necessary to give effect to the cost-benefit principle. A tiered reporting framework allows reporting requirements to be proportionate to user needs and entity circumstances, while maintaining consistency and reducing compliance costs where the benefits of full reporting are lower. The feedback on this DP was deliberated by the ASRB during 2010 and 2011 which specifically considered what the tier framework should look like.
In 2011, the ASRB/XRB adopted a multi-standards approach, concluding that for-profit and PBE sectors have different users and reporting objectives. XRB noted that PBE reporting is focused not only on resource providers, but also on service recipients, creating information needs that differ from those addressed by IFRS. As a result, the XRB concluded that separate PBE standards based on IPSAS would better meet user needs over time.



While a separate PBE standards framework was considered necessary, the XRB also recognised that the costs and benefits of financial reporting differ significantly across the PBE population. The Accounting Standards Framework therefore adopted a tiered approach to ensure reporting requirements remained proportionate to entity circumstances. The XRB considered tiers to be an important mechanism for balancing user needs and reporting costs. Entity size was viewed as a useful proxy for cost-benefit considerations because smaller entities generally have fewer users and more limited reporting resources. Public accountability was also retained as an important consideration for entities operating in capital markets or holding assets in a fiduciary capacity.

Background – rationale for PBE tiers and thresholds approach in the ASF

The final Accounting Standards Framework established a four-tier structure for PBEs:

- **Tier 1:** Publicly accountable PBEs and PBEs with expenses greater than $30 million apply full PBE Accounting Standards.
- **Tier 2:** Other PBEs apply the same recognition and measurement requirements as Tier 1 but with reduced disclosure requirements.
- **Tier 3:** PBEs with expenses of $2 million or less may apply Simple Format Reporting – Accrual.
- **Tier 4:** Eligible entities permitted to report on a cash basis may apply Simple Format Reporting – Cash.

This structure reflected the XRB's view that reporting requirements should remain aligned with user needs while providing more proportionate reporting options for smaller entities. The use of expenses as the primary size indicator reflected the view that expenses are generally a better measure of the scale of PBE activities than revenue, particularly in the public sector and not-for-profit environment.

Note:
In February 2024, the threshold between Tier 1 and Tier 2 was increased to $33 million, and the threshold between Tier 2 and Tier 3 was increased to $5 million (effective from 28 March 2024).

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

Proportionality in current PBE framework

NFP entities owe accountability to users who cannot require information directly. As economic significance increases, the benefits of comprehensive reporting become more likely to justify its cost. The current framework provides proportionality by allowing smaller NFP entities to apply simpler accrual or cash-based reporting rather than IPSAS-based standards.

Tier	Status	Criteria	Reporting framework	Rationale
Tier 1	GAAP	Public accountability or 'large' per XRB A1* (expenses > $33m)	Full PBE Standards	For entities with the highest level of economic significance or public accountability.
Tier 2	GAAP	No public accountability and not 'large' per XRB A1(expenses < $33m)	PBE Standards but reduced disclosures (RDR)	For entities where full Tier 1 disclosures may not provide sufficient additional benefit (lower levels of economic significance or public accountability)
Tier 3	GAAP	No public accountability and expenses < $5m	Tier 3 Standard (simplified accrual)	For smaller NFP entities required to prepare GAAP financial statements, where comprehensive PBE Standards would be disproportionate.
Tier 4	Non-GAAP	No public accountability and not a 'specified not-for-profit entity' (i.e. operating payments of $140,000 or less in last two accounting periods)	Tier 4 Standard (cash)	For legislatively eligible small NFP entities where simple cash reporting supports basic accountability.

* Note that this is different to 'large' defined by the Financial Reporting Act 2013 for the purposes of requiring GAAP reporting

Who do we balance the costs and benefits of reporting for?

Population snapshot

- The NFP population includes charities, incorporated societies, friendly societies, agricultural and pastoral (A&P) societies, Māori asset governance entities, some credit unions and other NFPs. The sector varies in legal form, funding, accountability and reporting capability. XRB reporting obligations arise from legislation and, in some cases, founding documents.
- These NFPs range from small volunteer-run organisations to large service providers controlling substantial resources. Compared with equivalent for-profit and public sector entities, they may have less accounting expertise and compliance capacity, more volunteer or part-time preparers, and greater reliance on templates and advisers. Compliance costs may reduce resources for their mission, but resource constraints do not remove accountability for donated, public or community resources.
- NFP entities are heavily concentrated in Tier 4 and at the lower end of Tier 3 as shown in the estimated population data at right (noting only some data is available).

Estimated NFP population by tier

Tier	Charities (approx.)	Incorporated societies (estimated)*	Other ***
Tier 1	132	5,597 across Tiers 1-3**	
Tier 2	644		
Tier 3	7,563		
Tier 4	18,481	3,552	

Notes and sources

*MBIE - August 2024
**XRB sample data indicated approx. 1-2% of societies would be eligible for Tier 1 and Tier 2. Note that population applying XRB Standards is less than total society population due to the 'small society' provision in the Act

*** Population detail of this other group is largely unknown – there may be some variation within this group in terms of whether they apply PBE or Tier 3/4 Standards. This population may include the following:

- Approx. 85 registered friendly societies based on friendly societies register administered by Companies Office – if a society has less than $33million of expenses in the last two preceding years they may not necessarily prepare financial statements using XRB Standards based on s64 of the Friendly Societies and Credit Unions Act 1982.
- Māori asset governance entities (that are not charities and consider themselves NFPs – there are approx. 108 iwi organisations and post settlement governance entities (Iwidata.nz), not counting other related entities),
- A&P societies (of which we do not expect a large population),
- some credit unions (noting they may apply for-profit standards in some cases, also relevant s64 of the Friendly Societies and Credit Unions Act 1982); and
- potentially other organisation not required by legislation to prepare financial statements using XRB standards

What drives the need to balance costs and benefits of reporting?

The need for proportionality may differ across the PBE population.

Entity capability

- Compliance costs are a larger share of spend for smaller entities, more of which are NFPs
- Smaller NFPs have fewer accounting resources and often rely on volunteers

User engagement

- NFP users are often closely connected: members, donors, funders, beneficiaries

Accountability relationships

- Charities face heightened transparency and stewardship expectations (public trust, tax exemptions, donor funding)
- Incorporated societies may differ from registered charities

Population characteristics

- NFPs vary greatly in capability, size and reporting needs

For more on users, see the NFP Tier 1 and Tier 2 options paper and the PBE Tier 3 and Tier 4 paper
See also the cost-benefit assessment in the PBE conceptual framework par 3.35-3.40

Qualitative aspects to consider for tiers and thresholds

Alongside the quantitative considerations, decisions on the tiers and the thresholds have qualitative dimensions. The factors below provide context for the tier and threshold considerations explored throughout this paper.

Serving users and the public interest

- **User needs –** first and foremost – who the primary users are at each tier, and what their information needs are.
- **Public accountability –** whether an entity has, or can obtain, public accountability (e.g. through issuing debt instruments or stewardship of public funds) rather than being placed in a tier by size alone.
- **Comparability –** how far users need statements to stay comparable across entities and over time, and the point at which simplification between tiers erodes that comparability.
- **International alignment vs local relevance –** balancing international alignment against what is relevant and practical for NZ preparers and users (acknowledging it is a framework standards question, but still relevant in considering it when drawing tier and threshold boundaries) .

Proportionate, coherent and workable

- **Preparer capability and understandability –** whether preparers at each tier can realistically apply the requirements, and whether the resulting statements stay understandable to their users.
- **Proportionality –** matching the reporting obligation at each tier to the size, complexity and public interest of the entity, weighing compliance cost against the benefit to users so requirements stay proportionate.
- **Sector and legislative alignment –** keeping tier and threshold boundaries coherent across the for-profit and PBE, and considering alignment with the FRA and other statutory reporting thresholds.
- **Stability and transition mobility –** avoiding models that make entities “seesaw” between tiers, and allowing transition relief for those moving up or down.

Key challenges

NFP tiers and thresholds: how the agreed challenges guide the analysis

See the Appendix for the wider PBE sector challenges and context that underpin this NFP analysis.
Stakeholder feedback indicates that proportionality pressures may be more pronounced for NFP entities. The following analysis considers how these challenges arise in the NFP sector and whether they justify changes to the current framework.

Agreed challenge	NFP context	Focus of the NFP analysis
1. Complexity in applying the framework	Complexity can arise from the interaction between legislation, XRB A1 (including moving between tiers), tier criteria and GAAP and non-GAAP reporting. Capability constraints may make this complexity more significant for some NFP entities.	Whether the framework could be simpler and easier to navigate, including through the organisation of GAAP and non-GAAP reporting and the design of the tier structure. *Covered in the current-framework, GAAP/non-GAAP and tier analysis.*
2. Public accountability has a limited role	Public accountability as defined in XRB A1 applies to relatively few NFP entities. Size is therefore generally the principal determinant of tier eligibility, despite wider forms of accountability to donors, funders, members and communities.	Whether the criterion continues to add value as a separate Tier 1 criterion for NFP entities. *Covered in the public accountability analysis.*
3. Ensuring tiers remain meaningful and proportionate	NFP entities within the same tier can differ substantially in size, complexity and reporting capability. Stakeholders have raised concerns about reporting costs and fit of the standards. Staff observations also highlight the breadth of entities within Tier 3, the significant step from Tier 3 to Tier 2, the prevalence of Tier 4-eligible entities opting into Tier 3 for accrual reporting, and that the tier thresholds (in particular Tier 4) do not capture significant asset stewardship.	Whether each tier has a clear and proportionate role, whether another reporting framework or tier is needed, and whether the thresholds appropriately allocate NFP entities between tiers. *Covered in the Tier 1 and Tier 2, Tier 3, tier options and threshold analysis.*
4. Different needs across the PBE sector	NFP entities operate within different funding, accountability and reporting arrangements from Public Sector entities. The NFP population is also diverse, ranging from small community organisations to large service-delivery entities.	Whether these differences support NFP-specific options or conclusions, while maintaining an appropriately coherent ASF. *Addressed throughout the paper.*

Analysis of Not-for-profit tiers and thresholds

NFP tiers and thresholds

Three frameworks, four tiers: Tier 2 adds proportionality within PBE Standards through reduced disclosures.

GAAP

Over $5m in expenses

PBE Standards

Comprehensive accrual framework

Tier 1 **Tier 2 – RDR**

- Strongest need for comprehensive reporting: public accountability, economic significance
- Few NFPs (approx. 3%), but most of the sector's economic significance

Under $5m in expenses

Tier 3 NFP Standard

Simplified accrual framework

Tier 3

- For smaller, simpler entities where PBE Standards are disproportionate
- Not intended to scale; may refer to PBE Standards
- Many NFPs, small share of economic significance

Non-GAAP

Legislative threshold (not set by XRB): operating payments below $140,000 in the previous two periods

Tier 4 NFP Standard

Simple cash reporting framework

Tier 4

- Very simple cash reporting for the smallest entities
- Cash basis is a fundamental change from Tier 3
- Most NFPs, small share of economic significance



Tier 3 to Tier 2: a steep increase in volume and complexity of requirements



Tier 4 entities may opt into Tier 3 when accrual reporting fits better

Do any NFP entities need further proportionality within or between these frameworks?

Tier 4 opt-up into Tier 3

Ensuring tiers remain meaningful and proportionate: some Tier 4-eligible NFP entities elect to apply Tier 3

Tier 3 provides simplified accrual reporting for NFP entities with expenses below $5 million, including entities that may also be eligible to report under Tier 4.

Observation

- Tier 3 was originally developed for entities with annual expenses below $2 million. The threshold increased to $5 million in 2024 broadening the range of entities eligible to apply the standard.
- Tier 3 serves a large share of the NFP population, with entities likely to be concentrated toward the lower end of the threshold.
- The standard is intended to provide simple accrual reporting, but size is only a proxy for whether an entity is simple. Eligible NFP entities can differ significantly in their activities, transactions, capability and assurance requirements. Proportionality issues may arise from the interaction between the reporting standard and assurance requirements rather than from the reporting requirements alone.
- A large and diverse population means application questions will continue to arise (and occur more frequently than for Tier 1 and Tier 2). These may identify potential improvements, but do not always indicate a widespread problem, or that the improvement is the best fit for the overall standard.
- Further increases in the threshold could bring larger and more diverse entities into Tier 3, increasing pressure to address transactions or circumstances currently dealt with by reference to Tier 2 accounting policies, and increase the diversity of practice within Tier 3 itself.

Staff view

- Tier 3 continues to provide substantial proportionality for NFP entities for which comprehensive PBE Standards would be disproportionate. A broad eligible population does not, by itself, mean another tier is required, but it does create a tension between keeping the standard simple for smaller entities and addressing the needs of larger or more complex entities.
- We consider that Tier 3 requirements should continue to be refined based on the needs and capabilities of the simpler entities that make up most of its population.
- The key question is whether Tier 3 remains sufficiently workable and targeted across the entire population, particularly toward its upper end, without undermining its simplicity for smaller entities at the lower end.

Tier 3 to Tier 2 is a significant step

Ensuring tiers remain meaningful and proportionate

The transition from Tier 3 to Tier 2 can be significant

Observation

- Tier 3 is a standalone simplified accrual standard, while Tier 2 applies the recognition and measurement requirements of comprehensive PBE Standards.
- Movement from Tier 3 to Tier 2 therefore involves a substantial increase in the volume and complexity of reporting requirements. Further simplification of Tier 3 could increase this difference.
- The NFP population thins out around and above the current $5 million threshold. Staff do not currently have evidence on how frequently entities cross this boundary or whether there is a substantial and distinct population between simple and comprehensive reporting.
- The steep transition also raises two related questions: which entities should reasonably be expected to apply comprehensive PBE Standards, and whether the upper limit of Tier 3 appropriately identifies that population.

Staff view

- The significant transition from Tier 3 to comprehensive PBE Standards may leave a gap in proportionality in the current NFP tier model. However, some step is inevitable when moving from simplified to comprehensive reporting, and the existence of a significant step does not itself justify another framework. The gap could also be affected by any future changes to comprehensive PBE Standards or the role of Tier 2.
- An intermediate framework may provide a better bridge for entities for which Tier 3 is no longer appropriate but comprehensive PBE Standards remain disproportionate. It could also create greater scope to simplify and target Tier 3 to the simpler entities that make up the majority of its population.
- However, the case for an intermediate framework depends on whether there is a sufficiently distinct population to serve, and whether the additional framework, boundary and standard-setting costs would be justified.

Tier 1 and Tier 2: the role of Tier 2

Ensuring tiers remain meaningful and proportionate

Tier 1 and Tier 2 entities have similar accountability relationships

Observation

- Tier 1 NFP entities can be highly economically significant. Tier 2 captures entities below that level, but which may still be independently governed, receive significant public or donated resources, and have substantial accountability obligations. The distinction between Tier 1 and Tier 2 generally reflects differences in economic significance, rather than fundamentally different accountability relationships or obligations to the public. This similarity may support the application of comprehensive PBE Standards across both tiers.
- Reduced disclosures provide some proportionality, but the relief is relatively limited compared with the simplified requirements available in Tier 3.
- There is limited evidence about the practical benefit and cost savings provided by reduced disclosures, particularly given the wider complexity of applying PBE Standards.

Staff view

- Unlike the public sector, Tier 2 NFP entities are not necessarily consolidated into a wider Tier 1 reporting entity. The benefits of applying common recognition and measurement requirements can therefore be less significant.
- However, similar accountability relationships may support applying PBE Standards across Tier 1 and Tier 2, while differences in economic significance may justify reduced requirements for Tier 2.
- The more fundamental question is where comprehensive PBE Standards should begin to apply in the NFP population, and whether Tier 2 provides sufficient proportionality for entities around that point.
- If greater proportionality is needed between Tier 3 and comprehensive PBE Standards, the question may become whether Tier 2 should be repurposed to provide greater proportionality by using Tier 2 as an intermediate framework.

NFP tiers and thresholds - observations

What the analysis tells us about NFP tiers: findings reflect the NFP tier analysis alone; final recommendations will consider the wider ASF.

Current framework provides substantial proportionality

- Tier 1 and Tier 2 provide comprehensive reporting; Tier 3 and Tier 4 are materially simpler.
- Tier 3 and Tier 4 serve the smaller entities that make up much of the NFP population.
- Some Tier 4 entities opt up to Tier 3 where accrual reporting better suits.
- Requirements within Tier 3 and Tier 4 can continue to be refined without changing the overall framework.

Is another framework actually needed, or can proportionality be refined within existing tiers?

Main question arises between Tier 3 and comprehensive PBE Standards

- Tier 3 serves a broad, diverse population and may struggle with more complex transactions.
- Moving to comprehensive PBE Standards is a substantial step up in volume and complexity.
- Further refinement around the needs of simpler entities may make the step to PBE Standards even more pronounced.
- The NFP population thins out near this Tier 3/Tier 2 boundary; more evidence may be needed.

Which entities should apply Tier 3 or comprehensive PBE Standards, and is there a meaningful gap between those populations?

Tier 2 offers a narrower proportionality

- Tier 2 mainly offers reduced disclosures, not simpler recognition and measurement.
- Similar accountability supports common standards across Tier 1 and Tier 2, while differences in economic significance may justify reduced requirements for Tier 2.
- The benefit of Tier 2 savings is not yet well understood but may still be meaningful.

Should Tier 2 provide greater intermediate proportionality?

Staff view

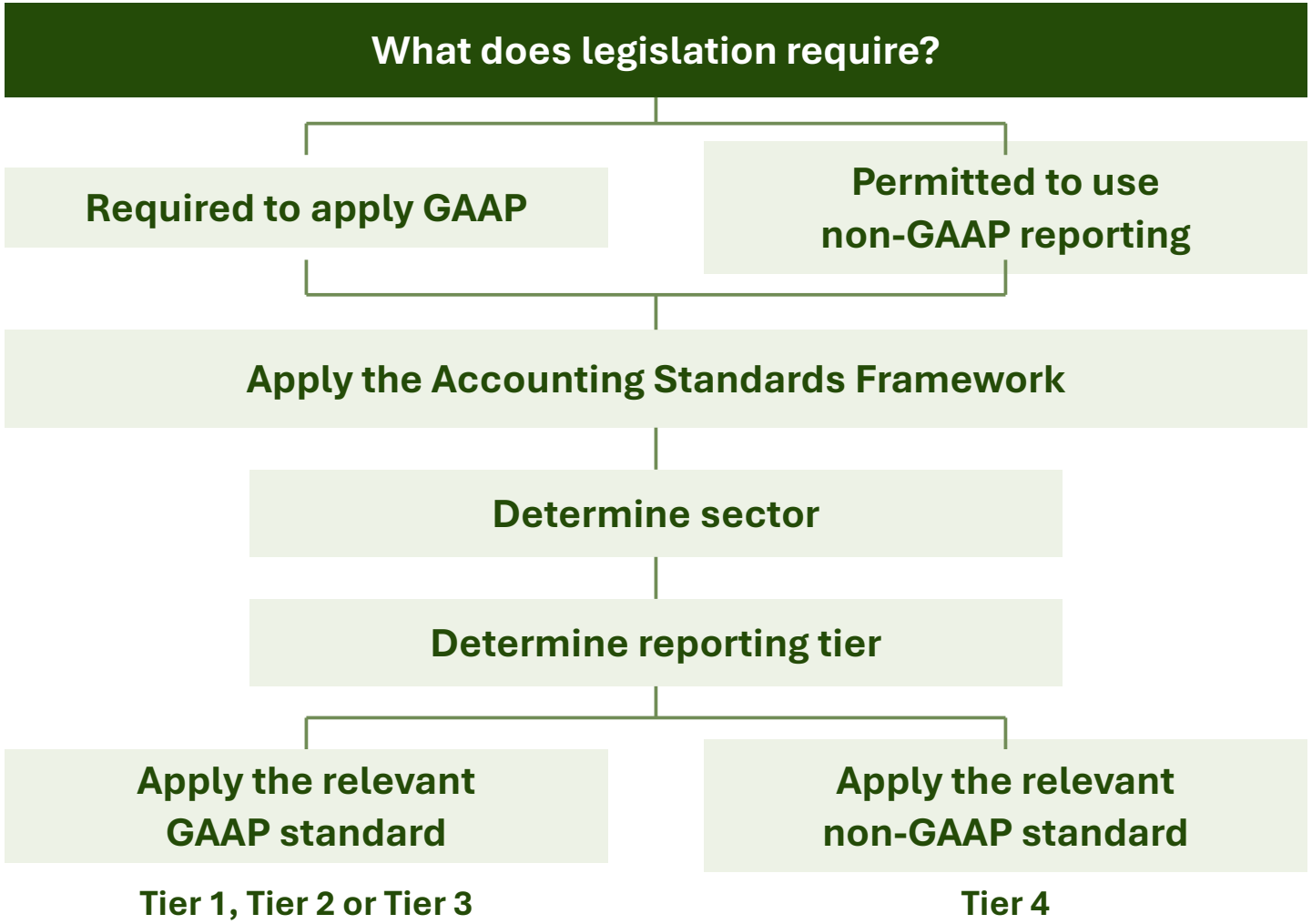
The four-tier framework provides a strong basis for proportionality; the analysis does not establish that another tier is necessarily required, but raises whether there is a meaningful gap between Tier 3 and comprehensive PBE Standards.

If more intermediate proportionality is needed: Tier 2 could play a greater role; or an additional intermediate tier could be introduced.

Non-GAAP/GAAP reorganisation

Legislation determines the GAAP or non-GAAP reporting pathway

Current-state: Through the definition 'specified not-for-profit entity', the legislation directs entities to either apply GAAP or permits them to apply Non-GAAP. Both these pathways lead into a detailed application of the ASF:



Key observations

- The ASF currently presents cash-based, non-GAAP reporting as Tier 4 alongside the three GAAP tiers.
- Legislation generally determines whether an entity must apply GAAP or may use non-GAAP reporting before the ASF applies.
- Should GAAP and non-GAAP reporting continue to be presented in the same hierarchy of four tiers?
  - Permission to use non-GAAP reporting does not necessarily preclude electing GAAP.

An alternative: Cash-based reporting could sit outside the GAAP tier structure

Under this alternative, cash-based reporting would be presented as a separate Non-GAAP standard outside the tier structure. Sector and tier allocation would apply only where GAAP is required or elected.

GAAP reporting

Legislation requires GAAP → Determine sector → Determine tier → Apply relevant GAAP standard

Non-GAAP reporting

Legislation permits Non-GAAP reporting → Apply the applicable Non-GAAP standard

Potential benefits/costs

- Better reflects the legislative distinction and pathway between GAAP and non-GAAP reporting and simplifies the ASF by keeping sector and tier allocation to just the GAAP pathway.
- Presents a change to the organisation of the framework and may result in initial confusion for a large subset of reporters
- Stakeholders may not engage in legislation, and therefore misunderstand the Non-GAAP standard, and XRB communication.

What would change?

- Cash-based reporting would no longer be presented as Tier 4 and would sit separately from the GAAP tier structure.
- The GAAP tier structure would comprise Tiers 1–3.
- The Tier 4 NFP Standard and the Tier 4 PS Standard would need to be converged into one Non-GAAP Standard that could apply to either a public sector entity or a not-for-profit entity.

Staff view

This alternative may help address the structural complexity highlighted throughout the review. Staff consider it worth testing through consultation.

Tier options

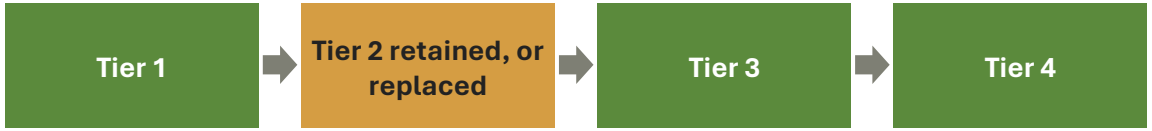
NFP tier options

The NFP analysis indicates that the current four-tier framework provides a strong basis for proportionality, but raises a fundamental question about who should apply Tier 3, who should apply comprehensive PBE Standards, and whether there is a meaningful gap between those populations. These options test whether that gap should be addressed through the existing four tiers or by introducing an additional intermediate tier.

Staff initially considered a wider range of possible tier structures across the PBE sector. Following, further sector-specific analysis, we have narrowed the options to those that most directly respond to the issues identified in this sector. Other structures considered, and why they are not proposed for consultation, are summarised in the Appendix.

For comparison with the current ASF, the options are described as four-tier and five-tier structures. If non-GAAP reporting is presented separately, these would comprise three or four GAAP tiers respectively, plus a separate non-GAAP standard.

Option 1: Retain four tiers



Retain four tiers, but consider whether the reporting requirements attached to each tier continue to provide proportionality in the most appropriate place.

This could involve:

- retaining the current Tier 1 and Tier 2 relationship; or
- replacing the current Tier 2 reduced-disclosure model with an intermediate accrual framework between comprehensive PBE Standards and Tier 3.

Tier 3 and Tier 4 requirements could also be simplified but to what extent may depend on what option is decided for Tier 2.

Accordingly, we have analysed a couple of different approaches to retaining four tiers.

Option 2: Introduce a fifth tier



Introduce an additional tier between Tier 3 and the PBE Standards to provide a more graduated progression from simplified reporting to comprehensive reporting.

This could involve:

- retaining Tier 1 as the comprehensive reporting tier for the most economically significant or publicly accountable NFP entities;
- retaining Tier 2 as comprehensive reporting with reduced disclosures;
- introducing a new intermediate accrual framework between Tier 2 and Tier 3;
- retaining Tier 3 as the simplified accrual framework; and
- retaining Tier 4 as the cash-reporting framework.

Tier 3 and Tier 4 requirements could also be simplified and made less prescriptive.

NFP tier option 1

Retain four tiers – Three Tiers of GAAP reporting, and a Non-GAAP standard

Retain four tiers, but reconsider where and how proportionality is delivered. Tier 2 could continue to provide proportionality through reduced disclosures or could be repurposed as an intermediate accrual framework.

GAAP			Non-GAAP
Thresholds to be determined			Legislative threshold: operating payments below $140,000 in the previous two periods
Tier 1 **PBE Standards Comprehensive accrual framework**	**Tier 2** **Reduced disclosures or another intermediate accrual framework** • **(OPTION 1A)** PBE Standards RDR • **(OPTION 1B)** A separate intermediate accrual framework (distinct from Tier 1)	**Tier 3 NFP Standard** **Simplified accrual framework** • Tier 3 Repurposing Tier 2 as an intermediate framework could allow Tier 3 to remain focused on simpler entities and support further simplification.	**Non-GAAP Standard** **Simple cash reporting framework** • Existing Tier 4 PS/NFP Standard

Option 1A	**Retain Tier 2 as reduced disclosures**
Option 1B	**Repurpose Tier 2 as an intermediate accrual framework**

The next two slides analyse these approaches to retaining four tiers.

Analysis of Option 1A: Four tiers

Option 1A: Retain the current role of the tiers

Retain the current role of the tiers on the basis it provides a suitable structure for proportionality, where improvement is best delivered by other means, such as targeted refinements to existing requirements, or by issue of guidance etc.

Tier 1	Tier 2	Tier 3	Non-GAAP
Comprehensive reporting	Reduced disclosures	Simplified accrual reporting	Cash reporting

Strengths:

- Builds on substantial proportionality through comprehensive, simplified accrual and cash-reporting frameworks. Population is concentrated in Tier 3 and Tier 4, and may mean less proportionality is needed between the PBE Standards and simplified frameworks.
- Retains proportionality for larger entities through reduced disclosures.
- Avoids another framework, threshold or transition boundary.
- Thresholds and populations would likely remain relatively stable.
- Lower implementation, transition and ongoing maintenance costs.

Weaknesses:

- Tier 3 now serves a broader population than originally intended. Larger and more complex entities may limit both further simplification and the extent to which thresholds can increase before entities enter PBE Standards.
- Tier 2 proportionality is focused on larger entities applying the comprehensive framework. It may provide less proportionality moving out of simplified accrual reporting than needed. The transition from Tier 3 to comprehensive reporting may remain significant.
- Uncertainty may persist for transactions that a simplified framework does not adequately address.

This option considers that the current four tier structure remains broadly appropriate, noting:

- proportionality concerns would be considered reasonably minor and able to be addressed via refinements to existing requirements rather than the introduction of a new framework
- that any changes to threshold values (such as the threshold to PBE Standards) can be achieved within this existing framework structure

This option also accepts that:

- Some limitations may persist - Tier 3 may continue to apply to a broader range of entities and transactions, and will not provide a comprehensive answer for all transactions and events;
- These limitations may be preferable to the complexity of introducing another framework, or expanding the volume of entities required to apply PBE Standards.

RAG rating NFP: 🟠

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

Analysis of Option 1B: Four tiers

Option 1B: Repurpose Tier 2 as an intermediate framework

Retain four tiers, but position Tier 2 between Tier 3 and comprehensive reporting. Improve proportionality through a more gradual progression, rather than relying primarily on reduced disclosures.

Tier 1	Tier 2	Tier 3	Non-GAAP
Comprehensive reporting	Intermediate framework	Simplified accrual reporting	Cash reporting

Strengths:

- Directly addresses the Tier 3 to comprehensive reporting transition.
- Allows Tier 3 to remain focused on simpler entities.
- May allow greater Tier 3 simplification, with an intermediate framework for more complex needs.
- Could support higher thresholds for comprehensive reporting.
- Provides a more graduated progression between frameworks.

Weaknesses:

- Depends on evidence that a distinct intermediate population exists.
- Requires a judgement that additional proportionality is more valuable between Tier 3 and comprehensive reporting than within the comprehensive reporting framework. The benefits of an intermediate framework need to outweigh the loss of the current Tier 2 reduced-disclosure model.
- Requires reconsideration of thresholds, applicable populations and transition arrangements.
- Requires a new framework to be developed and maintained, despite retaining four tiers.

This option assumes that the gap between Tier 3 and comprehensive reporting is significant enough to justify an intermediate framework. Introducing another framework may allow reporting requirements, thresholds and populations to be more deliberately aligned to the needs and complexity of different NFP entities.

This could support greater simplification of Tier 3 and potentially higher thresholds before comprehensive reporting is required. However, these benefits come at the cost of another framework, additional complexity, and the potential loss of proportionality currently provided through Tier 2 reduced disclosures.

RAG rating NFP: 🟠

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

NFP tier option 2

Introduce an additional tier – Four tiers of GAAP reporting and a Non-GAAP Standard

This option retains Tier 2's existing reduced-disclosure role and introduces an additional intermediate framework between PBE Standards and the Tier 3 NFP Standard. This provides greater intermediate proportionality without repurposing Tier 2.

GAAP			Non-GAAP
Thresholds to be determined			**Legislative threshold: operating payments below $140,000 in the previous two periods**
Comprehensive accrual framework **PBE Standards** Two tiers with different levels of disclosure: • Tier 1 • Tier 2 – RDR Retain proportionality at the Tier 1 and Tier 2 level.	**New intermediate accrual framework** Possible bases could include: • An internationally developed framework (such as INPAS) • A locally modified framework (such as a scaled-up Tier 3)	**Simplified accrual framework** **Tier 3 NFP Standard** The additional tier could allow Tier 3 to remain focused on simpler entities and support further simplification of its requirements.	**Non-GAAP Standard** **Simple cash reporting framework** • Existing Tier 4 PS/NFP Standard

Analysis of Option 2: Five tiers

Option 2: Add an intermediate framework

Add a new intermediate framework for entities whose reporting needs exceed the existing Tier 3 Standard, but for which comprehensive PBE Standards may be disproportionate.

Tier 1	Tier 2	New Tier	Tier 3	Non-GAAP
Comprehensive framework	Reduced disclosures	Intermediate accrual framework	Simplified accrual framework	Cash framework

Strengths and rationale

- Retains Tier 1/Tier 2 disclosure-based proportionality
- Adds a dedicated intermediate framework for more graduated progression while allowing for simplification of the existing Tier 3 Standard
- Addresses the substantial Tier 3 to Tier 2 transition and respond to concerns about entities moving directly from the simplified Tier 3 Standard into comprehensive PBE Standards.

Weaknesses and limitations

- A distinct population remains unproven and may be small
- Adds a standard, threshold and transition boundary, increasing complexity
- May duplicate flexibility achievable within current Tier 3
- Significant development and ongoing maintenance costs

This option seeks to retain the proportionality currently provided through Tier 1 and Tier 2, while introducing additional proportionality between the Tier 3 Standard and comprehensive PBE Standards. A dedicated intermediate framework may allow thresholds, reporting requirements and populations to be more deliberately aligned, while supporting further simplification of Tier 3 and Tier 4.

However, these benefits come at the cost of an additional framework, threshold and transition boundary. The case for this option therefore depends on whether a distinct intermediate population exists and whether the benefits of a more graduated reporting progression outweigh the additional complexity introduced into the framework.

RAG rating NFP: 🟠

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

Threshold options

How we narrowed the threshold approaches

We considered both what thresholds should measure and how those measures could be applied.

A range of threshold indicators and models could potentially be used to allocate entities between tiers.

Indicators considered

What could the threshold measure?

- Expenses
- Revenue
- Assets
- Employee numbers
- Public interest
- Funding sources

Models considered

How could the indicators be applied?

- Single indicator
- Either/or test
- Both test
- Multi-factor test

Approaches proposed for consultation

Which approaches remain most relevant?

Expenses only

Continue to use expenses as the primary measure of operating scale.

Expenses OR assets

Expenses with a supplementary asset threshold: retain expenses, add assets as a supplementary indicator, and move an entity to the higher tier if either threshold is exceeded.

Why have we narrowed the approaches?

Revenue provides similar information about annual activity but may be more volatile.

Employee numbers, public interest and funding sources introduce greater judgement or complexity.

A both test may miss an entity that is significant on only one measure.

Assets are the main indicator considered that could supplement expenses by capturing stewardship.

Conclusion: Other indicators and models may capture additional aspects of size, complexity or accountability, but staff have not identified a sufficiently strong case for progressing them given the additional judgement or complexity they would introduce.

Detailed analysis of the other indicators and threshold models considered is provided in the appendix.

NFP threshold approaches proposed

Staff propose progressing two approaches: expenses only, and expenses or assets.

Thresholds distinguish entities by size and significance. An asset test may capture NFPs with substantial restricted, endowment or heritage assets but low expenditure.

1. Expenses only

RAG rating NFP: 🟢

Retains the original policy approach

Stable measure of annual activity; avoids asset-test complexity.

Why retain

- Expenses track NFP activity and are less affected by one-off events.
- Continuity with current framework; easy to self-assess.
- No valuation needed; fewer volatile tier moves.

Main limitation

May understate entities with high assets but low expenditure.

2. Expenses OR assets

RAG rating NFP: 🟠

Broadens the approach

Either high activity or high assets could trigger a higher tier.

Why consider an asset test

Expenses may miss entities holding substantial restricted, endowment or heritage assets.

These assets create stewardship obligations despite low expenditure.

Main limitations

Valuation, revaluation and gross vs net choices add complexity and volatility.

Tier 4-eligible entities with large assets are set by legislation, so an ASF asset test may not address them.

🟢 Strong fit / low concern
🟠 Mixed fit / medium trade-off c
🔴 Significant trade-off concerns

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Setting the threshold values

Threshold indicators and model determine how significance is measured. However, threshold values ultimately determine which entities must apply which tier.
The following considerations should determine the objectives that threshold settings should achieve, and guide where, and when, the Tier 1, Tier 2 and Tier 3 threshold values are ultimately set. These cannot be considered in isolation and must be reflected within the tier structure, tier indicator, sector and framework decisions.

Desired outcomes

- Determine which entities should sit within each reporting tier and the characteristics that each tier is intended to capture.

Tier	Current intended population
Tier 1	Highest accountability / significance
Tier 2	Significant entities where full Tier 1 disclosures are not needed
Tier 3	Moderate-sized entities requiring simplified reporting
Tier 4	Small entities where simple reporting remains appropriate

- Thresholds should avoid unnecessarily moving PBEs into higher reporting tiers where compliance costs may outweigh benefits.
- Threshold settings should create meaningful distinctions between tiers and ensure entities with similar circumstances are grouped together.
- Maintain a degree of stability once an entity's reporting tier has been established, while recognising that entities near tier boundaries may experience greater uncertainty and transition pressures.

Alignment between public sector and not-for-profit sector

- Public sector and not-for-profit sectors have different populations, accountability relationships and reporting environments. Future threshold settings may need to consider whether common or sector-specific outcomes are appropriate.
- Feedback from stakeholders suggests proportionality pressures may differ between sectors. For example, concerns relating to reporting burden are more commonly raised in the NFP sector, while some public sector populations voluntarily opt into higher reporting requirements.
- Any sector-specific threshold settings should be balanced against maintaining a coherent ASF

Legislative settings, MBIE, and for-profit considerations

- Continued focus on accountability settings within PBE framework
- Tier 4 threshold is legislated and may constrain threshold outcomes
- Incorporated societies ‘small society’ carve out signals policy interest in reducing burden on smaller NFP entities
- Legislative developments should be considered alongside ASF objectives when determining threshold values.
- Divergence from for-profit threshold settings could create opportunities for entity arbitrage (for-profit public sector entities)

Staff preliminary view: Staff do not consider it appropriate to identify preferred threshold values until decisions regarding tier structure, sector settings and threshold indicators are further developed. Population analysis and stakeholder feedback could be used to test whether proposed values achieve the desired outcomes.

Public accountability

Does a separate public accountability criterion continue to add value in the NFP sector?

Public accountability

NFP entities are generally accountable to donors, members, funders, beneficiaries and communities. However, public accountability as defined in XRB A1 principally captures entities that access public capital markets or hold assets in a fiduciary capacity as a primary business, together with entities deemed to have public accountability under New Zealand's higher levels of public accountability (HLPA) arrangements.

The criterion appears to have limited practical effect

- We are not aware of a current NFP entity that is allocated to Tier 1 solely because it meets the defined public accountability criterion.
- Entities meeting the criterion are likely to exceed the Tier 1 expense threshold.

The definition of Public Accountability was explored separately

- The earlier public accountability paper recommended no further exploration of the XRB A1 definition unless the broader ASF review or consultation identifies a reason to reconsider it.
- The definition is internationally anchored, linked to New Zealand legislation and HLPA arrangements, and recently amended to address application issues.

Staff view

Staff consider it appropriate to test through consultation whether the safeguarding value of retaining a separate public accountability criterion outweighs the benefit of simplifying the framework for PBEs.

Issue to explore

- Whether the benefits of retaining a separate public accountability criterion continue to outweigh the additional framework complexity created by a separate Tier 1 criterion.
- Consider its practical effect, wider framework rationale and continuing safeguard.
- Even where legislation permits an entity to use Tier 4 non-GAAP reporting, the ASF separately says that a PBE with public accountability applies Tier 1.

Possible continuing rationale

- The criterion may still capture an unusual or future entity whose capital-market or fiduciary accountability is not adequately reflected by size.
- It also maintains alignment with the wider Accounting Standards Framework, international practice and New Zealand's legislative arrangements.

Preliminary view and Board decisions

Preliminary view and Board decisions

	Staff preliminary view	Decisions sought from the Board
1	**Tier structure** The current four-tier structure remains broadly appropriate, but consultation should test whether greater proportionality is needed between Tier 3 and comprehensive PBE Standards. This could be provided by repurposing Tier 2 or adding an intermediate tier. These approaches could create greater scope to simplify Tier 3, but with different implications for proportionality across the framework and overall complexity.	**Agree the tier options for discussion** Four tiers: retain the current structure, with two approaches: • Retain Tier 2 in its current reduced-disclosure role. • Repurpose Tier 2 to provide greater intermediate proportionality. Five tiers: retain Tier 2 in its current role and introduce an intermediate tier between Tier 3 and comprehensive PBE Standards.
2	**Threshold approaches** Expenses remain a broadly appropriate size measure, but consultation should test whether an expenses-or-assets approach would better allocate some entities between tiers.	**Agree the threshold approaches** Include ‘expenses only’ and ‘expenses-or-assets’ in the discussion paper to test operating scale and asset stewardship.
3	**Public accountability** Public accountability may continue to provide a useful Tier 1 safeguard and supports consistency with the wider ASF, but consultation should test whether these benefits justify retaining it as a separate criterion.	**Agree to consult on public accountability** Seek views on whether public accountability, as currently defined in XRB A1, should remain a separate Tier 1 criterion for NFP entities.
4	**Non-GAAP reporting** Presenting Non-GAAP reporting separately from the tier and sector structure is more coherent with legislative reporting pathways.	**Agree to explore the reorganisation of Non-GAAP reporting within the ASF** Seek views on whether the Non-GAAP standard should be reorganised outside the sector/tier structure of the ASF and converged into a single Non-GAAP standard applicable to both sectors.

Threshold settings should remain indicative until preferred strategy and outcomes are agreed.

Appendices

Appendix 1 – Legislative context

- Much of the public sector is required to prepare GAAP financial statements because of its nature and accountability obligations rather than its size.
- Legislative "large" thresholds play a more limited role in determining whether many PBEs report under GAAP than they do in some private-sector contexts.
- For many PBEs, the proportionality question is therefore less about whether GAAP applies and more about which reporting requirements should apply within the ASF.

Primary legislation	Entity type	GAAP requirement
Charities Act 2005	Charities	• All are required to prepare GAAP financial statements irrespective of size (except where non-GAAP reporting / Tier 4 may be allowed) – there is no ‘large’ threshold contained in this group of legislation. • ASF determines applicable reporting tier, not whether reporting is required
Incorporated Societies Act 2022	Incorporated societies	

Appendices

PBE sector challenges

Current and emerging considerations relevant to PBE tiers and thresholds

1. Economic growth and inflation since the ASF was established

- Thresholds were largely designed between 2009–2012.
- Inflation and nominal growth may have shifted entities into higher tiers without corresponding increases in complexity or accountability.
- Updated PBE tiers and thresholds issued in February 2024 was an interim measure awaiting ASF review

2. Changes in PBE reporting populations

- Incorporated societies now fall within the external reporting framework.
- Small incorporated societies receive specific legislative relief through a separate reporting regime.
- The composition of entities applying Tier 3 today may differ materially from the populations that informed the original framework design.

3. Ongoing questions regarding suitability of reporting frameworks

- Stakeholders continue to raise questions regarding the appropriateness of IPSAS-based requirements for some public sector and not-for-profit entities.
- Questions remain about whether current reporting requirements remain appropriately targeted across the PBE sector.

Collectively, these developments raise questions about whether the current PBE tiering framework continues to provide the most appropriate balance between accountability, user needs and proportionality across both the public sector and not-for-profit sectors.

Current and emerging considerations relevant to PBE tiers and thresholds

4. Availability of alternative reporting frameworks internationally

- International reporting frameworks continue to develop, including initiatives focused on the not-for-profit sector, such as International Not-for-Profit Accounting Standards (INPAS).
- These developments may provide additional perspectives on delivering proportionate reporting.

5. Accountability expectations and proportionality

- Accountability remains a central consideration within both the public sector and not-for-profit sectors.
- Incorporated societies legislative reform reflects policy intentions to improve accountability and modernise governance and reporting functions
- The current framework primarily uses public accountability and size-based thresholds to determine reporting requirements.

6. Ongoing focus on reducing unnecessary compliance costs (NZ Govt Policy)

- New Zealand regulators continue to emphasise regulatory efficiency and proportionality.
- The original rationale for tiers in the ASF was to balance reporting benefits against preparer costs.

Collectively, these developments raise questions about whether the current PBE tiering framework continues to provide the most appropriate balance between accountability, user needs and proportionality across both the public sector and not-for-profit sectors.

PBE tiers and thresholds - key challenges

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

1. Applying the framework can be more complex than expected

- Determining expenses depends on the applicable reporting framework.
- The framework includes a mixture of XRB and legislative thresholds.
- The ASF uses current-year assessments, while legislation often uses prior-year thresholds, creating complexity and different transition outcomes.
- Tier movement provisions can be difficult to apply.

2. Public accountability has limited role in PBE sector

- Public accountability is an overriding test for Tier 1 but applies to relatively few PBEs.
- Entity size therefore becomes the dominant determinant of reporting requirements.
- The defined term ‘public accountability’ may not align with general public sector and NFP understanding of public accountability.

3. Ensuring tiers remain meaningful and proportionate

- Some Tier 4 entities often opt into Tier 3 (due to accrual basis)
- Tier 3 serves a very broad range of entities (wide spectrum).
- The transition from Tier 3 to Tier 2 can be significant.
- Tier 1 and Tier 2 entities often have similar accountability relationships – do separate tiers remain meaningful and sufficiently proportionate?

4. Different needs across the PBE sector

- Public sector and NFP entities have different accountability relationships.
- User needs and reporting environments may differ across those sectors.
- A single proportionality model may not always accommodate those differences equally well.

Appendices

PBE tier and threshold options considered

Exploring alternative Tier structures (for public sector and NFPs)- staff analysis

Options

Current tier structure

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3 → Tier 3
Tier 4 → Tier 4

No change

RAG rating PS: 🟢
RAG rating NFP: 🟢

Recommendation: Include in DP

1. Five tiers (new T3)

Create an additional Tier between current T2 and T3

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3
Tier 3 → Tier 4
Tier 4 → Tier 5

Bridges steep T3 to T2 transition (entities and users), reduces diversity in current T3. (Tier 3 upscale)

RAG rating PS: 🟡
RAG rating NFP: 🟡

Recommendation: Include in DP

2. Three tiers

Combine current T1 and T2

Tier 1, Tier 2 → Tier 1
Tier 3 → Tier 2
Tier 4 → Tier 3

Reflect similar accountability between T1 and T2 entities

RAG rating PS: 🟡
RAG rating NFP: 🟢

Recommendation: Include in DP

3. Four tiers with a redefined T2

Combine T1 and T2, and create a new T2 (mix of option 1 and 2)

Tier 1, Tier 2 → Tier 1
Tier 2
Tier 3 → Tier 3
Tier 4 → Tier 4

Reflect similar accountability between T1 and T2 entities and bridge T3 to T2 transition

RAG rating PS: 🟡
RAG rating NFP: 🟢

Recommendation: Include in DP

4. Five tiers (new T4)

Insert a Tier between current T3 and T4.

Tier 1 → Tier 1
Tier 2 → Tier 2
Tier 3 → Tier 3
Tier 4
Tier 4 → Tier 5

Bridge accrual basis T4 to T3 (Tier 3 simplified and upscale Tier 3)

RAG rating PS: 🔴
RAG rating NFP: 🟡

Recommendation: Include in DP

🟢 Strong fit / low concern
🟡 Mixed fit / medium trade-off concerns
🔴 Significant trade-off conc

NFP Tier structures not proposed

Following further analysis and the Board's direction to rationalise the options, staff do not propose progressing the following tier structures.

Simple three-tier structure

Option considered but not proposed

Rationale previously considered

- Simpler architecture with fewer tiers and thresholds.
- Tier 1 and Tier 2 have similar accountability relationships and already share recognition and measurement requirements.

Why not proposed

- Removes the existing Tier 2 proportionality mechanism.
- Could increase reporting requirements for current Tier 2 entities.
- Does not address the transition from Tier 3 into comprehensive PBE Standards.
- Simplifies the structure, but may reduce proportionality.

Additional lower-tier framework

Option considered but not proposed

Rationale previously considered

- Some Tier 4 entities opt into Tier 3, and stakeholders still identify burden for very small entities.
- Much of the NFP population sits at the lower end of Tier 3 and Tier 4.

Why not proposed

- Legislation determines which entities are eligible to use non-GAAP cash reporting. Eligible entities may instead elect to apply the Tier 3 NFP Standard where accrual reporting better suits their circumstances.
- Concerns potentially relate more to simplifying existing requirements than to a missing lower framework. Tier 3 can continue to be refined under the current structure, while Options 1B and 2 may create greater scope for further simplification.
- A larger population does not necessarily require another framework. Tier 3 and Tier 4 already provide two levels of reporting for smaller and less complex entities.

Threshold approaches- staff analysis

1. Expenses only	2. Expenses OR Assets	3. Expenses AND Assets	4. Revenue OR Assets
Retains simplicity. Positioned to respond to inflation concerns, and number of entities required to apply T2.	Addresses concern that some PBEs can hold significant assets and report in lower tiers.	Addresses concerns that some PBEs find the reporting requirements disproportionate.	Provides consistency with other legislative thresholds.
RAG rating PS: 🟠	**RAG rating PS:** 🟢	**RAG rating PS:** 🟠	**RAG rating PS:** 🟠
RAG rating NFP: 🟠	**RAG rating NFP:** 🟢	**RAG rating NFP:** 🟠	**RAG rating NFP:** 🔴
Recommendation: Include in DP	**Recommendation: Include in DP**	**Recommendation: Include in DP**	**Recommendation: Not to include**

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

NFP threshold approaches not proposed

Following further NFP sector analysis and the Board's direction to rationalise the options, staff do not propose progressing the following threshold approaches.

Expenses AND assets

Approach considered but not proposed

Rationale previously considered

- Captures annual operating scale and assets under stewardship, targeting entities significant in both measures.
- May reduce the risk of an entity moving to a higher tier based on a temporary increase in one measure alone.

Why not proposed

- Higher-tier reporting requires both thresholds to be exceeded, potentially missing entities significant on only one measure.
- Examples: a large service-delivery entity with high expenses but few assets, or an entity with substantial assets but low annual expenses.
- This conflicts with the rationale that asset stewardship may independently justify higher tier reporting.
- Adds complexity over expenses alone without clearly improving identification of significant entities.

Revenue OR assets

Approach considered but not proposed

Rationale previously considered

- Revenue reflects resources from donors, funders, members and other providers. It is readily understood and used in some legislative thresholds.
- Combining revenue and assets recognises incoming and accumulated resources under stewardship.
- Reflects criteria used in primary legislation commonly applying to for-profit entities ('large' in the Financial Reporting Act 2013)

Why not proposed

- Donations, grants, bequests and multi-year funding can cause significant revenue fluctuations.
- Revenue may not reflect service delivery, organisational complexity or ongoing reporting capability.
- Pass-through funding and capital grants can trigger a higher tier without greater accountability or reporting complexity.
- Expenses offer a more direct, stable measure of annual operating scale. Legislative alignment alone does not justify replacing expenses.

Appendices

Threshold indicators

Alternative threshold indicators and models

In light of the legislative settings and the characteristics that should drive proportionality, we have considered what indicators and/or combination of indicators would be most viable to use in the NZ environment. Refer to Appendix 2 and 3 for more details – including strengths and weakness.

Indicators (what should we measure to deliver proportionality)	Models (how do we apply the indicators)
• Assets • Revenue • Expenses • Employees (e.g. FTEs) • Public interest (e.g. Existence of specific user groups) • Funding sources (e.g. Dependency on public/donor funding)	• Single indicator model – one measure determines tier • Either/or model – exceeding either threshold indicator determines tier • Both model – exceeding both indicators determines tier • Multi-factor model – a combination of indicators exceeded (2 out of 3 etc.)

Staff view

- We consider there is merit in consistent threshold indicators across the public sector and NFP frameworks to support a coherent and simple ASF. There could also be some merit in these being consistent with the for-profit sector too. However, this would need to be balanced with the proportionality required of the different sectors.

Indicators

- Expenses, revenue and assets appear the most viable threshold indicators as they are objective, measurable and capable of consistent application across a broad range of PBEs.
- Employees, public interest, funding source indicators may capture important aspects of accountability, significance or capability that financial indicators do not capture, but they may be more volatile, difficult to measure and apply consistently as threshold measures.

Models

- Simpler threshold models are generally easier to understand, administer and apply consistently. However, multiple-indicator models may better reflect the diverse characteristics of PBEs and reduce reliance on any single proxy for proportionality.
- Staff consider there is merit in further exploring both:
  - A single-indicator model; and
  - The either/or model or the both model based on financial measures (for example expenses, revenue and/or assets).
- More complex approaches may provide greater precision but could introduce too much complexity.

Alternative financial threshold indicators

Indicator	Characteristic measured	Strengths	Weaknesses
Assets	Accountability, stewardship, public interest, resources controlled	Reflects extent of stewardship and public wealth/resources entrusted and controlled May better capture stewardship responsibilities than expenditure	Dependent on accounting policy choices Fluctuate due to revaluation approaches Might overstate activity levels (where assets passively managed)
Revenue	Economic significance, activity	Widely understood and used internationally (also consistent with thresholds used in legislation – 'large') Captures scale of funding, and often aligns more closely with public visibility	Often volatile and can overstate significance in comparison to complexity Does not necessarily reflect resources controlled Requires application of the relevant reporting framework to determine
Expenses	Operational scale, size	Existing approach and widely understood and used internationally Generally stable year on year Effective proxy for size and organisational scale and complexity Compliance burden somewhat linked to resources	Does not necessarily reflect resources controlled Requires application of the relevant reporting framework to determine
Employees (Full Time Equivalents)	Organisational sophistication, capability	May reflect management complexity and governance requirements Easy to understand and can capture scale of service delivery Less impacted by accounting treatments (or frameworks applied)	Constantly fluctuating Would not capture contracting or outsourcing Does not necessarily reflect resources controlled May involve administrative burden
Public interest (such as specific user groups or ability to levy taxes/rates)	Accountability, level of public interest by users who engage with financial information	Reflects significance beyond size alone Recognises that some entities may have substantial societal impact despite relatively modest revenue, expenses or assets. Could capture qualitative characteristics unique to PBEs that financial indicators do not reflect	Might be difficult to define, scale, and apply Introduce significant judgement May be difficult for entities to self assess
Funding sources	Accountability, dependency on public/donor funding	Reflects degree of reliance on taxpayer, donor or public funding and that there might be differing accountability expectations.	May not directly reflect reporting needs of users Might be difficult to define, scale, and apply Does not necessarily reflect resources controlled

Expenses as an indicator

Existing rationale

The ASF uses expenses as the principal size indicator and a proxy for complexity, reflecting users' interest in how PBEs spend money and their demand for financial information.

When the ASF was developed, expenses offered a useful proxy for activity and a more relevant, reliable indicator than revenue, which can vary with funding.

What expenses measure

Annual operating scale and resources applied to public services.

A proxy for transaction volume and, to some extent, organisational complexity and capacity to absorb reporting costs.

Strengths	Limitations
Familiar and easy to understand, with data already available in reporting records.	Low expenses can understate the significance of substantial assets or stewardship responsibilities.
Comparatively stable and closely linked to annual operating activity.	Expenses may not reflect public interest. Higher expenditure does not necessarily mean greater complexity.
Relevant across public sector entities and consistent with the current framework.	It may not be reflective of the accountability some NFPs hold such as community trusts, investment entities, heritage asset entities and endowment funds.

Assets as an indicator

What assets measure

Resources controlled and stewardship responsibilities that expenses may miss.

Relevant NFP holdings include restricted, endowment, heritage and mission-related assets, investment portfolios, land and buildings held for charitable purposes, and other resources intended to support future service delivery.

Important limitations

Some assets may be restricted, non-productive, held in perpetuity or not readily available to fund operations. Asset values may therefore overstate an entity's practical scale or capacity to meet additional reporting requirements.

Practical threshold choices

Measurement basis

Gross or net assets? How should the test treat specialised, restricted, heritage and non-productive assets?

Cost and stability

Valuation costs and revaluations may add burden or trigger tier changes without any change in activity.

Proportionality

Would higher-tier reporting provide a meaningful benefit for affected entities and their users? Especially between Tier 1 and Tier 2, or between Tier 3 and PBE Standards.

Evidence before a decision

A limited population analysis before or alongside consultation would:

- Identify NFP entities (charities) below expense thresholds with unusually high assets, and the types of assets they hold.
- Consider which affected entities are within the ASF tier structure and which are eligible for non-GAAP cash reporting under legislation.
- Assess whether current tier placement understates their economic or stewardship significance.
- Test several illustrative asset thresholds and the resulting tier movements against expected reporting benefits.

International approaches

International approaches to NFP proportionality

NFP proportionality is delivered through both legislation and reporting standards

Jurisdiction	Who must report?	How are reporting requirements scaled?
Australia	Charity legislation uses annual revenue to decide whether a financial report is required. Small charities under A$500,000 generally need not submit one; medium and large charities must prepare accrual financial reports.	Australian Accounting Standards provide Tier 1 and Tier 2: the same recognition and measurement, with simplified Tier 2 disclosures. A new simplified Tier 3 standard for eligible private-sector NFPs applies from 1 July 2029; legislation and regulators determine which entities may use it.
Canada	Obligations depend largely on the legislation under which an NFP is incorporated (federal or provincial), not charity registration alone. Federal NFP corporations prepare annual financial statements under Canadian GAAP; public filing and assurance requirements vary with funding and revenue.	Canadian GAAP has dedicated accounting requirements for private-sector NFPs. Registered charities also file financial information with the tax authority, but charitable status alone does not establish one complete reporting framework for all NFPs.
United Kingdom	Legal form and income determine whether a charity may use receipts-and-payments accounts or must prepare accrual accounts. In England and Wales, many non-company charities with income of up to £500,000 may use receipts-and-payments reporting from 30 September 2026.	Charities preparing accrual accounts apply FRS 102 through the dedicated Charities SORP. SORP 2026 introduces three income-based tiers, but these mainly scale disclosures and narrative reporting rather than create separate recognition and measurement frameworks.
United States	Requirements to prepare GAAP financial statements depend on applicable state and other reporting requirements, rather than a single national NFP reporting mandate.	US GAAP includes NFP-specific requirements but does not generally distinguish requirements by entity size. Separately, tax and other regulatory reporting requirements may be scaled according to size.

Key observation

Across the international approaches considered, NFP proportionality commonly begins with legislation or regulatory status determining who must prepare financial statements. Where standards apply, some jurisdictions add dedicated NFP requirements, reduced disclosures or simplified reporting. Revenue or income is also used in instances to scale legislative, filing and assurance obligations.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB members
Meeting date:	24 November 2026
Subject:	**PBE Sector Tiers and Thresholds – Discussion Paper**
Date:	11 November 2026
Prepared by:	Alex Stainer
Through:	Nimash Bhikha

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

Purpose

1. This memo seeks the Board's feedback on the proposed Public Benefit Entity (**PBE**) tiers and thresholds section of the Accounting Standards Framework (**ASF**) Discussion Paper. The proposed extract draws together the separate Public Sector and not-for-profit (**NFP**) analysis in the accompanying papers and sets out the key issues and options on which we propose to seek stakeholder feedback.

Recommendations

2. We recommend the Board **PROVIDE FEEDBACK** on whether the:
   (a) Proposed Discussion Paper extract appropriately identifies the key PBE tier and threshold issues;
   (b) Options presented for the Public Sector and NFP sector are appropriate for consultation; and
   (c) Questions are likely to elicit the evidence needed to inform the Board's subsequent decisions.

Background

3. Staff have undertaken separate analysis of tiers and thresholds for the Public Sector and NFP sector. That analysis is set out in the accompanying papers:
   (a) Public Sector tiers and thresholds, which considers the Public Sector population, proportionality issues and proposed tier and threshold approaches; and
   (b) NFP tiers and thresholds, which considers the corresponding issues for the NFP population.
4. Although the analysis has been undertaken separately, both sectors currently form part of the PBE reporting framework and share several common considerations. We therefore propose a single PBE tiers and thresholds section in the Discussion Paper, while distinguishing between the Public Sector and NFP sector where the issues or potential approaches differ.

5. The draft excerpt reflects the following broad observations from the analysis:

   (a) **Public Sector:** The existing tier structure appears broadly proportionate, but there is a question about whether Tier 2 reduced disclosures provide sufficient benefits to justify maintaining a separate tier;

   (b) **NFP sector:** The existing framework provides significant simplification for smaller entities, but there may be a gap between simplified Tier 3 reporting and comprehensive PBE Standards;

   (c) **Threshold measures:** Expenses remain a practical measure of operating scale, but assets could provide supplementary information about stewardship and accountability that is not captured by expenses; and

   (d) **PBE-wide matters:** There are broader questions about the continuing role of public accountability as a separate Tier 1 criterion and whether GAAP and non-GAAP reporting should be presented separately within the ASF.

Draft discussion paper

6. The proposed Discussion Paper extract is intended to test these issues without expressing a preliminary Board preference. It therefore:

   (a) Explains the current framework and the proportionality issues identified through the review;

   (b) Distinguishes between the Public Sector and NFP sector where relevant;

   (c) Presents credible alternative approaches and their principal trade-offs; and

   (d) Seeks evidence about the entities affected, the benefits and costs of different approaches, and the factors that should inform any subsequent changes.

7. We do not propose final threshold amounts at this stage. Threshold amounts are dependent on the intended purpose and population of each tier and the measure or measures used to distinguish between tiers. We propose to use the Discussion Paper to obtain evidence on these matters before developing specific threshold proposals.

Draft Discussion Paper extract

PBE tiers and thresholds

The current PBE approach

The PBE framework currently provides four reporting tiers. The tiers are intended to scale reporting requirements to balance the information needs of users with the costs of reporting. Entity size is used to help determine the appropriate level of reporting.

Tier	Criteria	Reporting requirements
Tier 1	Public accountability or total expenses over $33 million	Full PBE Standards
Tier 2	No public accountability and total expenses of $33 million or less	PBE Standards with reduced disclosures
Tier 3	No public accountability and total expenses of $5 million or less	Simplified accrual-based Tier 3 Standard

Tier 4	No public accountability and eligible under legislation, currently based on operating payments of $140,000 or less in the previous two accounting periods	Simple cash-based Tier 4 Standard, non-GAAP reporting

The current framework principally uses expenses to distinguish entity size, while Tier 4 eligibility is linked to a legislative operating-payments threshold.

Why are we reconsidering the PBE approach?

The current PBE framework already provides significant differences in reporting requirements between tiers. Tier 3 and Tier 4 provide simplified reporting for smaller entities, while PBE Standards apply to larger and more complex entities.

We are considering whether the framework continues to provide proportional reporting in the right places. In particular, we are considering whether each tier continues to have a clear role, whether the transition between simplified and comprehensive reporting is appropriate, and whether the framework could be made simpler.

These issues may differ between the Public Sector and NFP sector. In the Public Sector, we have not identified a clear need for an additional reporting framework between Tier 3 and PBE Standards. The main question is whether Tier 2 reduced disclosures continue to provide meaningful proportionality.

For NFP entities, there may be a stronger case for greater proportionality between simplified Tier 3 reporting and comprehensive PBE Standards. However, the population around this boundary is relatively small, so an additional reporting framework would need to provide sufficient benefits to justify its development and ongoing complexity.

We have therefore considered the tier options for the Public Sector and NFP sector separately.

Options we are considering

Public Sector tier options

We consider that the tier structure remains broadly appropriate for the Public Sector. However, we are considering whether Tier 2 continues to provide meaningful proportionality or whether removing it would result in a simpler framework.

	Option 1: Retain Tier 2	Option 2: Remove Tier 2
Why consider this approach?	Retains an established form of proportionality and avoids disruption for existing Tier 2 entities.	Simplifies the tier structure where reduced disclosures may provide limited additional proportionality.
Trade-offs	Retains an additional tier and threshold when the practical benefits of reduced disclosures are not well understood.	Could increase reporting requirements for existing Tier 2 entities without corresponding benefits for users.

See our supporting analysis for Public Sector tier options for further context and information.

NFP tier options

For NFP entities, the key question is whether the framework provides sufficient proportionality between simplified Tier 3 reporting and comprehensive PBE Standards.

Tier 3 provides substantial simplification, but its deliberately simple requirements may not meet all the reporting needs of entities as they become larger or more complex. Conversely, moving into Tier 2 requires application of comprehensive recognition and measurement requirements.

We are considering three approaches.

	Option 1: Retain Tier 2	Option 2: Repurpose Tier 2 to a separate framework	Option 3: Introduce an intermediate tier between Tier 2 and Tier 3
Why consider this approach?	Maintains the current framework and avoids developing another reporting framework.	Provides an intermediate level of reporting without increasing the number of tiers.	Provides the most graduated reporting pathway while retaining Tier 2 in its current role.
Trade-offs	The significant difference between Tier 3 and PBE Standards would remain.	New requirements would need to be developed and existing tier populations and thresholds reconsidered.	Adds another reporting framework, threshold and transition boundary, potentially for a relatively small population.

See our supporting analysis for NFP tier options for further context and information.

Thresholds between tiers

Thresholds determine which reporting requirements apply to an entity. The current framework principally uses expenses as a practical measure of entity size.

We considered a range of possible indicators, including expenses, revenue, assets, employee numbers, public interest and funding sources. We consider that expenses remain the most suitable primary measure because they provide a relatively stable indicator of operating scale and are already well established within the PBE framework.

However, expenses do not necessarily capture the significance of resources held by an entity or its stewardship responsibilities. We are therefore considering whether assets should supplement expenses as a threshold measure.

Approach	What it would mean
Expenses only	Continue to use expenses as the primary measure of entity size.
Expenses or assets	An entity exceeding either the expense or asset threshold would move into the higher tier.

Adding assets could better capture entities with significant stewardship responsibilities but relatively low expenditure. However, it would also increase complexity and could make tier allocation more sensitive to valuation and accounting policies.

The relevance of an asset threshold may also differ between sectors. We have identified examples of NFP entities with relatively low expenditure but significant assets. We have not identified a material Public Sector population for which the current expense-based approach appears to result in inappropriate tier allocation.

Further analysis of the threshold measures considered is provided in the accompanying supporting analysis.

Other tier and threshold considerations

Public accountability

Public accountability has a specific meaning in the ASF and applies to relatively few PBEs independently of entity size.

We are therefore considering whether public accountability continues to be necessary as a separate Tier 1 criterion. Retaining it would provide a safeguard for entities with particular capital-market or fiduciary responsibilities that are not reflected by their size.

Our focus is on whether the criterion should be retained, rather than changing the existing definition of public accountability.

For-profit Public Sector entities

Some Public Sector entities are classified as for-profit entities and apply NZ IFRS rather than PBE Standards.

The ASF currently includes a separate Tier 1 expense threshold in the for-profit sector for these entities. See XRB A1 paragraphs 17 and 18.

This supports consistent Tier 1 reporting for economically significant Public Sector entities regardless of whether they apply PBE Standards or NZ IFRS.

Without this criterion, some economically significant for-profit Public Sector entities could apply Tier 2 because they do not meet the usual for-profit public accountability criterion.

However, it also adds complexity. In particular, XRB A1 refers to a "large for-profit public sector entity" based on an expense threshold (currently $33 million), while "large" has a different meaning under the Financial Reporting Act 2013.

We are therefore seeking views on whether this separate Tier 1 threshold should be retained.

GAAP and non-GAAP reporting

Legislation generally determines whether an entity must prepare financial statements in accordance with GAAP or is permitted to use a non-GAAP reporting standard. However, the ASF currently presents both within a single four-tier structure.

We are considering whether the ASF would be clearer if it distinguished between:

- GAAP reporting, with the sector and tier structure determining the appropriate GAAP standard; and
- non-GAAP reporting, presented separately.

This could simplify the presentation of the framework and better reflect the legislative pathway into GAAP or non-GAAP reporting.

See our PBE supporting analysis for further information.

Questions for respondents

Public Sector

1. Should Tier 2 be retained for Public Sector entities, or should it be removed? Why?

In considering this question, we are particularly interested in whether Tier 2 reduced disclosures provide meaningful proportionality for Public Sector entities.

2. Should Public Sector tier thresholds continue to use expenses only, or should an expenses-or-assets approach also be considered? Why?

3. Should the separate Tier 1 threshold for for-profit Public Sector entities be retained? Why or why not?

NFP sector

4. Which of the following approaches would best provide proportionate reporting for NFP entities, and why?

- retain the current structure, including Tier 2 in its current reduced-disclosure role;
- repurpose Tier 2 as an intermediate accrual framework; or

- retain Tier 2 in its current role and introduce a new intermediate reporting tier.

5. Is there a meaningful group of NFP entities for which Tier 3 does not adequately meet their reporting needs, but comprehensive PBE Standards would be disproportionate?

6. Should NFP tier thresholds continue to use expenses only, or should an expenses-or-assets approach also be considered? Why?

In particular, we are interested in whether there are NFP entities for which an expenses-only threshold does not appropriately reflect significant asset stewardship.

PBE-wide matters

7. Should public accountability, as currently defined in the ASF, continue to operate as a separate Tier 1 criterion for PBEs? Why or why not?

8. Would the ASF be clearer if it distinguished between GAAP and non-GAAP reporting first, with sector and tier determined within the GAAP reporting pathway? Why or why not?

9. Are there any other significant issues with the PBE tier and threshold framework that we should consider?

When responding, we also welcome information or evidence that could help inform any future decisions about threshold amounts.

Questions for the Board

Q1. Does the Board have any **FEEDBACK** on the draft excerpt for PBE tiers and thresholds for inclusion in the ASF discussion paper?

Related papers

- Public sector tiers and thresholds detailed analysis
- Not-for-profit sector tiers and thresholds detailed analysis

Appendix

Supporting analysis – Public sector tiers and thresholds (draft)

Supporting analysis – Not-for-profit sector tiers and thresholds (draft)

Supporting analysis – PBE sector thresholds and other considerations (draft)

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Public sector tier options

Supporting analysis

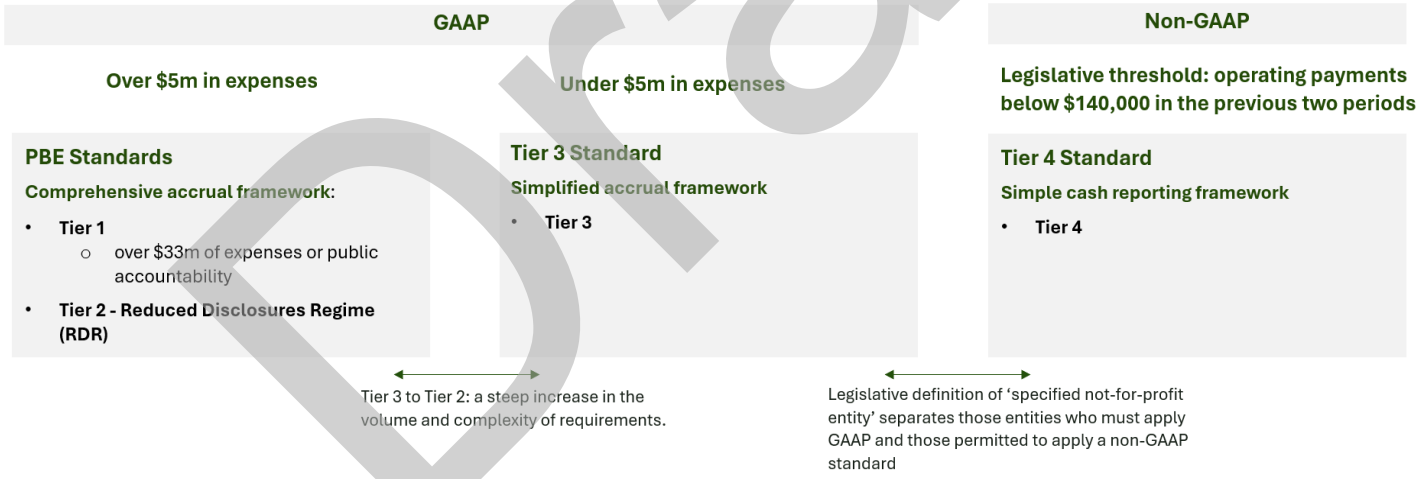
This document provides further information supporting the Public Sector tier options outlined in the Discussion Paper.

It explains:

- how the current framework provides proportionality for Public Sector entities;
- where there may be opportunities to improve proportionality;
- why we have not identified a clear need for another Public Sector reporting framework;
- the role of Tier 2; and
- the options we are considering.

How does the current framework provide proportionality?

The PBE framework provides different levels of reporting for entities of different sizes and circumstances.



Tier 1 and Tier 2 entities apply PBE Standards, with Tier 2 providing reduced disclosures, while Tier 3 and Tier 4 provide substantially simplified reporting for smaller entities. The framework therefore provides different forms of proportionality across the Public Sector.

In the Public Sector, the majority of entities report in Tier 1 and Tier 2. Across central and local government many entities also consolidate into a wider Tier 1 reporting group where application of the same recognition and measurement requirements is beneficial. Tier 2 therefore offers some level of proportionality within this environment through reduced disclosures.

A substantially smaller group in the Public Sector apply Tier 3 and Tier 4. This largely reflects the reporting arrangements for School Boards, which generally apply Tier 1 or Tier 2 for sector specific reasons even where their size would otherwise make them eligible for a lower tier.

Draft

Nevertheless, we consider that access to simplified reporting remains important for smaller Public Sector entities. These entities may have relatively limited financial reporting resources while still having important accountability obligations arising from their public functions.

Overall, we consider that the existing framework already provides significant proportionality. Our analysis has therefore focused on whether there is a case for further proportionality and whether the existing tiers continue to serve a meaningful purpose.

Where might proportionality be improved?

The move from Tier 3 to PBE Standards represents a significant increase in the volume and complexity of reporting requirements. This makes the boundary between Tier 3 and Tier 2 the most obvious place to consider whether another reporting framework may be needed.

However, we have not identified a clear rationale for introducing another reporting framework between them. In particular:

- Tier 1 and Tier 2 entities often operate within similar accountability environments, and many Tier 2 entities consolidate into wider Tier 1 reporting groups where similar recognition and measurement requirements are beneficial; and
- relatively few Public Sector entities report in Tier 3, and those that do may be relatively small within the wider central or local government reporting groups into which they consolidate;

These characteristics suggest that the difference in requirements between Tier 3 and Tier 2 does not, by itself, establish a need for another reporting framework. Tier 3 provides useful proportionality for smaller entities, while Tier 2 provides a form of proportionality for entities that benefit from application of the same Tier 1 framework.

Introducing another Public Sector reporting framework without a clearly identified need would add another reporting boundary, together with development and ongoing standard-setting costs, without providing significant additional benefits.

We have therefore focused instead on whether Tier 2 continues to provide meaningful proportionality in the Public Sector.

Does Tier 2 continue to have a meaningful role?

Tier 2 provides proportionality through reduced disclosures and there are reasons to retain this approach:

- it preserves an existing form of proportionality;
- eligible entities can provide fewer disclosures than Tier 1 entities; and
- it avoids disruption for existing Tier 2 entities.

However, the practical benefits and cost savings arising from reduced disclosures for Public Sector entities are not well understood. Many Tier 2 entities may also have simpler operations, meaning some disclosure requirements may be less extensive or may not apply in practice. At the same time, Tier 2 adds another reporting boundary and requires a separate tier and threshold to be maintained.

Our key consideration is therefore whether the proportionality provided by reduced disclosures is sufficiently meaningful to maintain a separate Tier.

What are the options?

Our analysis has lead us to two options.

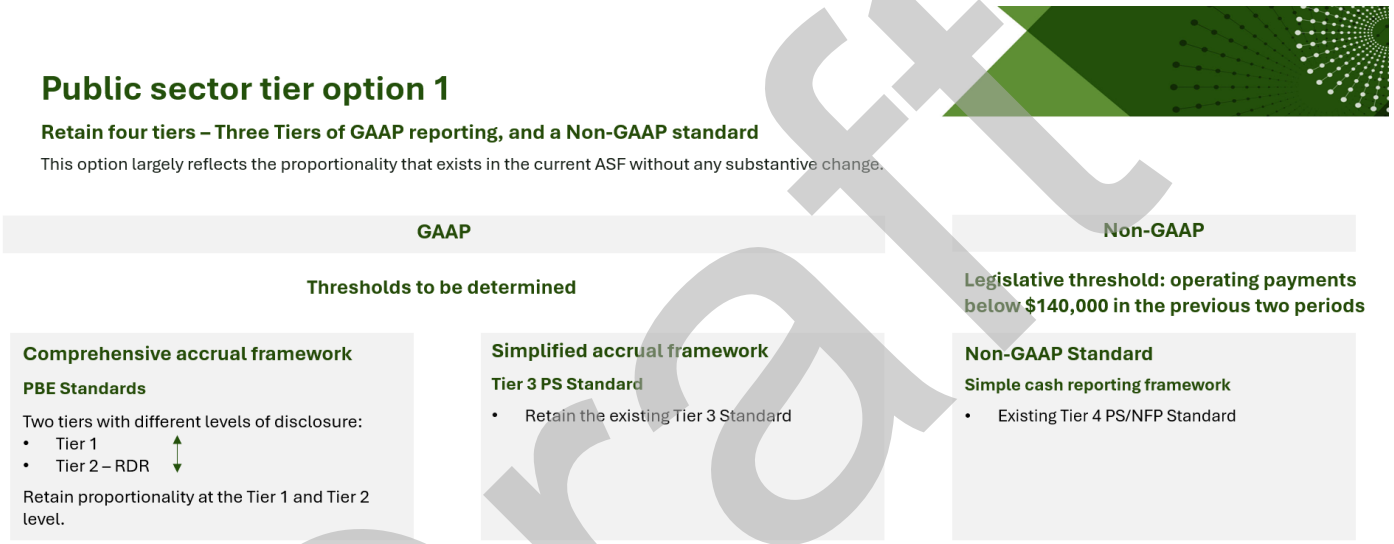
	Retain Tier 2	Remove Tier 2

Draft

What would this mean?	Tier 2 entities would continue to apply PBE Standards with reduced disclosures.	Existing Tier 2 entities would apply full PBE Standards.
Potential benefit	Retains existing reduced-disclosure relief and avoids disruption.	Simpler structure with one fewer tier and threshold.
Potential drawback	Retains a separate tier where the practical benefits are uncertain.	Existing Tier 2 entities could face additional disclosures without corresponding benefits to users.

A closer look at the options

Option 1: Retain Tier 2



Retaining Tier 2 would preserve the existing distinction between full PBE Standards and PBE Standards with reduced disclosures.

The main strength of this option is that it retains an existing form of proportionality. Current Tier 2 entities can provide fewer disclosures than Tier 1 entities, and retaining the tier would avoid disruption to established reporting practices. Removing a reporting concession solely to simplify the framework may not be justified if it provides meaningful benefits to preparers.

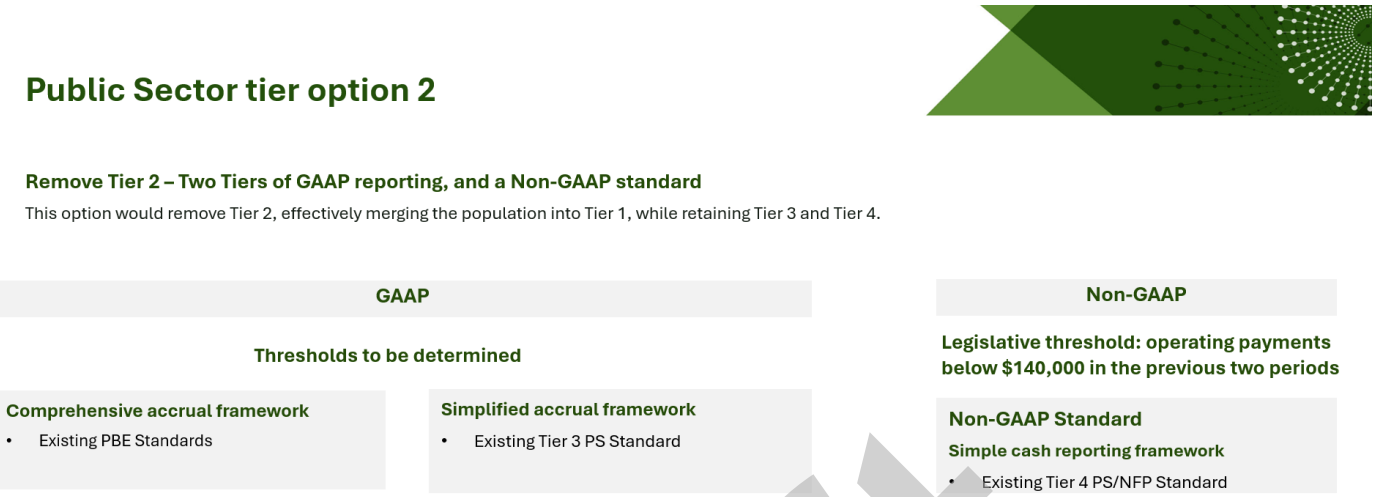
The main uncertainty is the extent of those benefits. Tier 2 entities generally continue to apply the same recognition and measurement requirements as Tier 1 entities. If these requirements account for much of the cost and complexity of applying PBE Standards, reduced disclosures may provide relatively limited relief.

Retaining Tier 2 would also mean continuing to maintain a separate tier and threshold.

This option may therefore be appropriate if reduced disclosures provide sufficient practical benefits to justify maintaining Tier 2 as a separate reporting level.

Draft

Option 2: Remove Tier 2



Removing Tier 2 would result in a simpler Public Sector tier structure. Entities moving beyond simplified reporting would apply full PBE Standards.

The main strength of this option is structural simplicity. It could be appropriate if there is little substantive difference in the reporting needs and accountability circumstances of entities currently in Tiers 1 and 2, particularly where Tier 2 entities form part of wider Tier 1 reporting groups.

However, simplifying the framework would come at a cost for existing Tier 2 entities. They would lose their current disclosure relief and could face additional reporting requirements. If those additional disclosures provide little additional useful information to users, removal of Tier 2 could increase reporting costs without a corresponding benefit.

The question is therefore not simply whether removing Tier 2 would make the framework simpler, but whether that simplification would justify removing an existing form of reporting relief.

This option may therefore be appropriate if Tier 2 reduced disclosures provide limited practical benefits and the benefits of maintaining a separate tier do not justify its additional complexity.

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Not-for-profit sector tier options

Supporting analysis

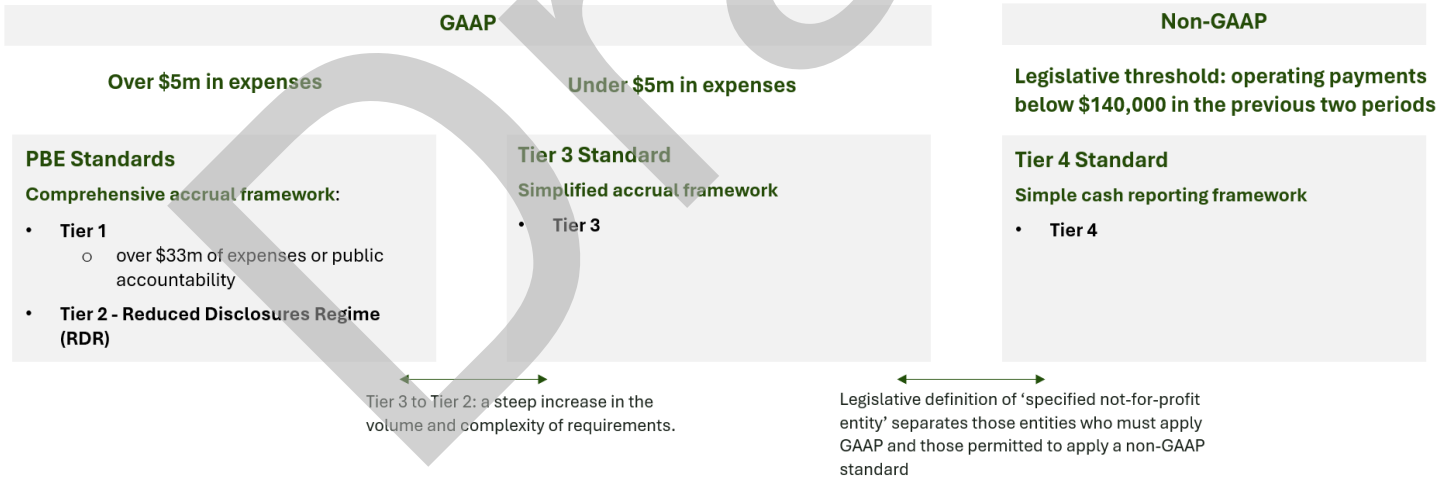
This document provides further information supporting the NFP tier options discussed in the Discussion Paper.

It explains:

- how the current framework provides proportionality for NFP entities;
- where the main proportionality issue may arise;
- why the role of Tier 3 is important;
- whether an intermediate form of reporting may be needed; and
- the options we are considering.

How does the current framework provide proportionality?

The PBE framework provides different levels of reporting for entities of different sizes and circumstances.



Tier 1 and Tier 2 entities apply PBE Standards, with Tier 2 providing reduced disclosures, while Tier 3 and Tier 4 provide substantially simplified reporting for smaller entities. The framework therefore provides different forms of proportionality across the NFP Sector.

This is particularly important in the NFP sector, where a large number of entities apply Tier 3 and Tier 4 and many have limited resources available for financial reporting.

Overall, we consider that the existing framework already provides significant proportionality. Our analysis has therefore focused on whether there are areas where further proportionality may be needed and whether the existing tiers continue to serve a meaningful purpose.

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Where might proportionality be improved?

The move from Tier 3 to PBE Standards represents a significant increase in the volume and complexity of reporting requirements. This makes the boundary between Tier 3 and Tier 2 the most obvious place to consider whether another reporting framework may be needed.

There are several reasons why the transition between Tier 3 and Tier 2 may be particularly relevant for NFP entities. In particular, NFP entities:

- do not necessarily form part of wider Tier 1 reporting groups, where applying consistent recognition and measurement requirements can support group reporting;
- have constrained resources available for financial reporting;
- As they become larger or as their transactions become more complex, a deliberately simple standard may not address all of their reporting needs; and
- have a diverse range of operations, transactions and accountability relationships.

These factors provide a reason to explore whether a more graduated transition between simplified Tier 3 reporting and comprehensive PBE Standards would provide more meaningful proportionality.

However, the existence of a significant step between Tier 3 and Tier 2 does not itself establish the need for another reporting framework. For instance, the NFP population becomes much smaller towards the current Tier 3 threshold of $5 million of expenses.

Why does the role of Tier 3 matter?

The issue is not only about entities moving out of Tier 3. Tier 3 is intended to provide substantially simpler reporting for smaller NFP entities. Maintaining that role is important, particularly given the large number of NFP entities applying Tier 3 and the limited financial reporting resources available to many of them.

However, Tier 3 also needs to accommodate entities approaching the upper end of its eligibility threshold. As entities become larger or their transactions become more complex, their reporting needs may increase.

Continuing to accommodate those entities within Tier 3 could constrain future simplification or changes to the standard. Requirements necessary for entities towards the upper end of Tier 3 may add complexity for the much larger population of smaller entities using the same standard.

An intermediate reporting framework could therefore potentially achieve two things:

- provide a more proportionate transition into comprehensive PBE Standards; and
- allow Tier 3 to remain more clearly focused on simpler entities, including providing greater scope for future simplification.

What are the options?

Our analysis has led us to the following approaches:

- **retain the current four-tier structure**
    - Retain Tier 2 in a reduced disclosures role; or
    - Repurpose Tier 2 to an intermediate framework.
- **introduce another reporting tier between Tier 2 and Tier 3 to provide an intermediate framework**,

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	Option 1A: Retain the current structure (including Tier 2)	Option 1B: Repurpose Tier 2	Option 2: Introduce a new intermediate tier
What would this mean?	Tier 2 would continue to apply comprehensive PBE recognition and measurement requirements with reduced disclosures.	Tier 2 would become an intermediate accrual-based reporting framework between Tier 3 and comprehensive PBE Standards.	A new reporting level would be introduced between Tier 3 and the existing Tier 2.
Potential benefits	• No new reporting framework would need to be developed. • Avoids disruption to existing reporting arrangements. • Does not introduce another reporting boundary.	• Provides greater intermediate proportionality without increasing the number of reporting levels. • Allows Tier 3 to remain more clearly focused on simpler entities. • Could provide scope for further simplification of Tier 3.	• Provides the most graduated reporting pathway. • Retains the existing role of Tier 2. • Could better target reporting requirements to different levels of complexity.
Potential drawbacks	• The significant difference between Tier 3 and comprehensive PBE Standards remains. • Reduced disclosures may not address the recognition and measurement complexity associated with moving into Tier 2.	• Tier 2 would no longer provide reduced disclosures within PBE Standards. • A new reporting framework would need to be developed and maintained. Tier populations, thresholds and transition arrangements would need to be reconsidered.	• Introduces another reporting framework and threshold. • Increases the overall complexity of the ASF. • Creates additional development and ongoing standard-setting costs. • The population benefiting from the additional tier may be relatively small.

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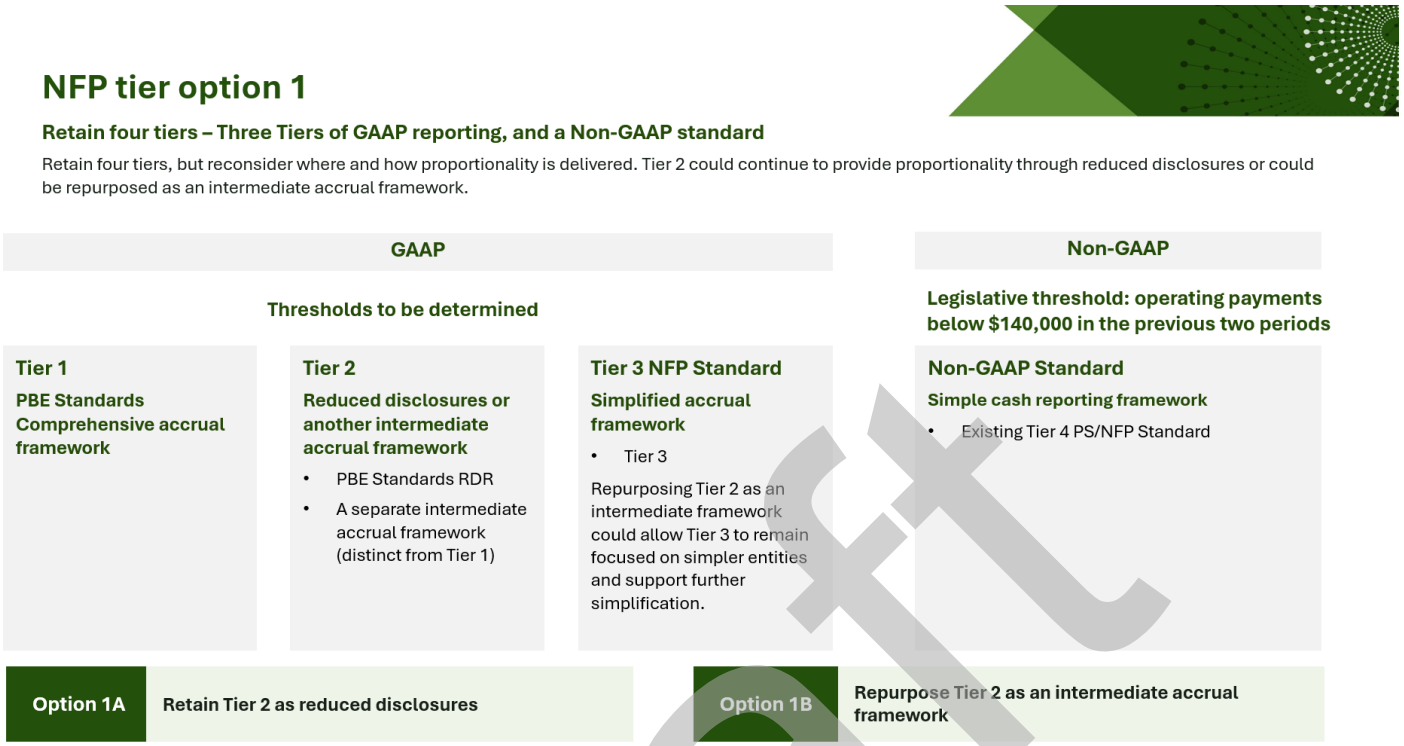
A closer look at the options

Option 1: Retain the current four-tier structure



Option 1A: Retain Tier 2 as reduced disclosures

Under this option, Tier 3 would continue to provide simplified accrual reporting and Tier 2 would continue to provide reduced disclosures within PBE Standards.

The main strength of this option is stability and simplicity. No new reporting framework would need to be developed and there would be no additional reporting boundary. Existing entities could continue to apply familiar reporting requirements.

This may be particularly important if relatively few NFP entities experience significant problems at the Tier 3/Tier 2 boundary. A new reporting framework creates development and ongoing standard-setting costs regardless of the number of entities that ultimately use it.

However, this option leaves the existing change between Tier 3 and PBE Standards unchanged. If the main cost or complexity for entities moving out of Tier 3 arises from recognition and measurement requirements, reduced disclosures may provide limited relief.

It may also constrain future changes to Tier 3 if that standard needs to continue accommodating entities with increasingly complex transactions and reporting needs.

This option may therefore be appropriate if the population experiencing significant proportionality issues is too small, or the issues are not sufficiently significant, to justify structural change.

Option 1B: Repurpose Tier 2

Under this option, Tier 2 would no longer consist of PBE Standards with reduced disclosures. Instead, it would become an intermediate accrual-based reporting framework between Tier 3 and comprehensive PBE Standards.

The main strength of this option is that it could provide greater intermediate proportionality without increasing the number of reporting levels.

A repurposed Tier 2 could be designed specifically for entities whose reporting needs have moved beyond a deliberately simple Tier 3 Standard but for which comprehensive PBE recognition and measurement requirements may be disproportionate.

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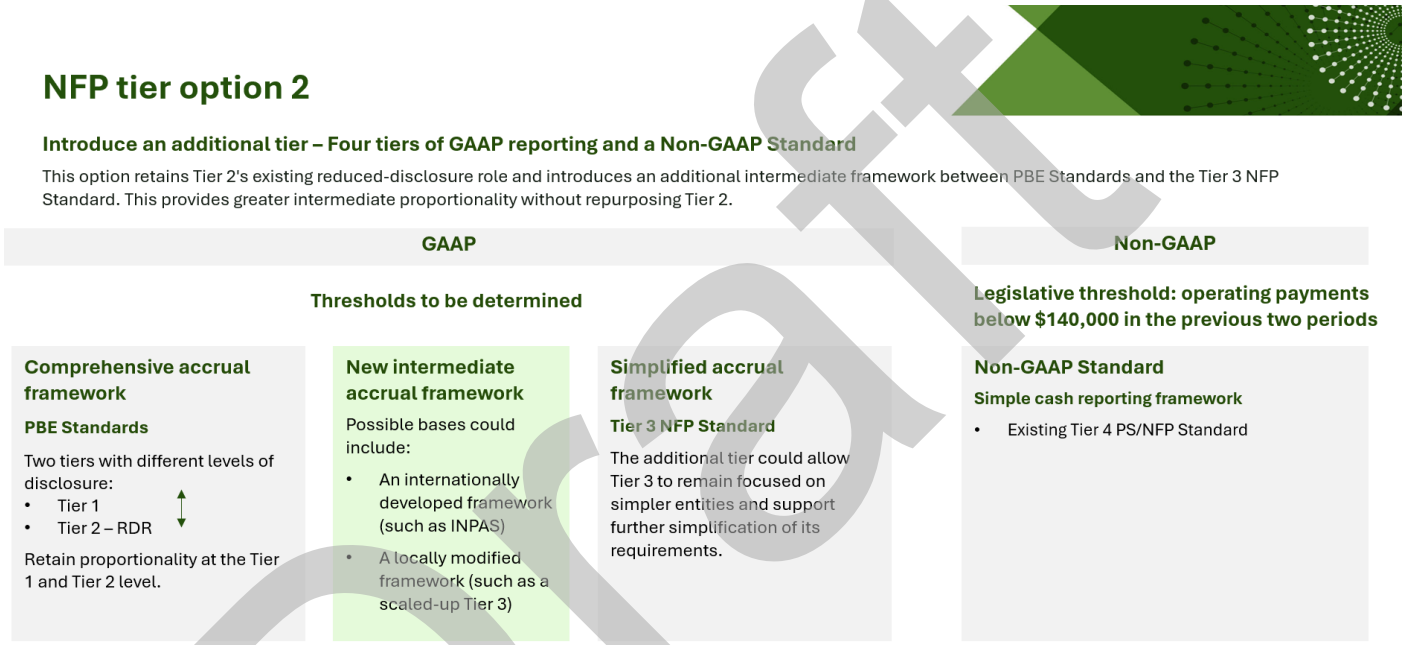
It could also allow Tier 3 to remain more clearly focused on simpler entities and potentially provide greater scope for future simplification.

However, the existing reduced-disclosure tier would disappear. Current Tier 2 entities may have different reporting circumstances from entities moving out of Tier 3. Repurposing Tier 2 would therefore require careful consideration of which entities the new framework is intended to serve and what would happen to entities currently applying Tier 2.

A new set of reporting requirements would also need to be developed and maintained, and tier populations, thresholds and transition arrangements would need to be reconsidered.

This option may therefore be appropriate if there is a meaningful intermediate population requiring greater proportionality, but the benefits of retaining the current Tier 2 role do not justify adding another reporting level.

Option 2: Introduce a new intermediate tier



Under this option, the existing Tier 2 would be retained and another reporting framework would be introduced between Tier 3 and Tier 2.

The main strength of this option is that it provides the most graduated reporting pathway.

Tier 3 could remain focused on simpler entities, the new tier could respond to intermediate reporting needs, and Tier 2 could continue to provide reduced disclosures for entities applying PBE Standards.

This could allow each reporting framework to be more clearly targeted towards the entities it is intended to serve.

However, this option would create the greatest structural complexity. It would add another reporting framework to develop and maintain, another threshold to determine and another boundary for entities to transition across.

The relatively small NFP population towards the current Tier 3 boundary is particularly relevant. Greater differentiation may result in better targeted reporting requirements, but the population benefiting from another permanent reporting level would need to be sufficient to justify its cost and complexity.

This option may therefore be appropriate if there are sufficiently distinct populations requiring simplified, intermediate and comprehensive reporting, and the benefits of separately targeting those populations justify another reporting level.

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PBE sector thresholds and other considerations

Supporting analysis

This document provides further information on aspects of the PBE framework that apply across, or sit alongside, the Public Sector and NFP tier and threshold options outlined in the Discussion Paper.

It covers:

- the measures used for tier thresholds;
- public accountability as a Tier 1 criterion; and
- the relationship between GAAP and non-GAAP reporting.

Measures used for tier thresholds

What are we trying to achieve with a threshold?

A tier threshold helps determine which reporting requirements apply to an entity. Ideally, it should distinguish between entities where different levels of reporting are appropriate, while still being simple and predictable to apply.

There is no single measure that tells us everything about an entity. For example, expenditure can tell us something about the scale of an entity's activities, while assets may tell us something about the resources it is responsible for.

Using more than one measure may therefore provide a fuller picture. However, each additional measure also makes the threshold more complicated and may make it less obvious which tier an entity falls into.

In considering possible thresholds, we have therefore focused on whether a measure:

- provides useful information about the scale or significance of an entity;
- works reasonably well across the diverse range of PBE entities; and
- can be applied without unnecessary complexity or judgement.

What measures could be used?

We considered several possible measures.

Measure	What it may indicate	Key limitation
Expenses	Scale of annual operations and resources used	May not capture resources held or stewardship responsibilities
Revenue	Scale of funding and activity	Can be volatile and provides similar information to expenses
Assets	Resources controlled and stewardship responsibilities	Valuations and revaluations can introduce complexity and volatility

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Employees	Organisational scale and complexity	May not reflect entities relying on volunteers, contractors or outsourcing
Public interest	Wider significance or accountability	Difficult to define and requires judgement
Funding sources	Nature of accountability relationships	Can be difficult to define and does not necessarily indicate scale

Why have we narrowed the options to expenses and assets?

We considered a range of measures that could be used to determine which reporting tier an entity falls into. Of these, expenses, revenue and assets appear to be the measures that could be applied most consistently across the wide range of entities in the PBE sector.

Revenue and expenses both provide an indication of the level of activity undertaken by an entity during the year. Because expenses are already used for the existing thresholds, we have not identified a strong reason to replace them with revenue. Expenses are generally relatively stable and provide a useful indication of the resources an entity uses to carry out its activities.

Assets provide a different perspective. An entity may have relatively low annual expenditure but still be responsible for significant resources, such as property, investments or endowments. Looking at assets as well as expenses could therefore provide a broader picture of the significance of an entity and its stewardship responsibilities.

We have therefore narrowed the approaches for further consideration to:

- **expenses only**, retaining the existing approach; or
- **expenses or assets**, retaining expenses but adding assets as a supplementary measure of significance.

Why wasn't an asset threshold used previously?

When the Accounting Standards Framework was developed, the potential benefits of an asset threshold were considered, but were not thought to justify the additional complexity.

In particular, an NFP entity could hold significant assets, such as an endowment or property, without necessarily having a high level of annual activity or complex operations. Significant assets were therefore not considered, by themselves, a sufficient reason for requiring more comprehensive reporting.

That consideration remains relevant. However, assets can also tell us something about the scale of the resources for which an entity is responsible. Even where an entity's annual expenditure is relatively low, responsibility for significant property, investments or other assets may create important stewardship and accountability responsibilities.

There are also drawbacks to using assets as a threshold. Asset values can change because of the types of assets an entity holds, the accounting policies it applies, valuation methods and revaluations. This could mean that an entity moves between tiers because of changes in asset values rather than significant changes in its activities. It could also create additional costs for some entities.

Does the relevance of assets differ between sectors?

NFP sector

For NFP entities, we have observed examples of entities with relatively low expenditure but significant assets, including investment portfolios, endowments and property held to support charitable purposes.

This raises a stronger question about whether an expenses-only threshold always appropriately reflects the significance of an NFP entity's stewardship responsibilities.

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However, significant assets do not necessarily mean that an entity has complex operations or requires more comprehensive reporting.

Public Sector

In the Public Sector, we have not identified particular examples where using expenses alone appears to be producing inappropriate reporting outcomes, although assets remain conceptually relevant to an entity's stewardship responsibilities.

The same two threshold approaches are therefore relevant across both sectors, but the practical case for introducing an asset threshold may be stronger in the NFP sector.

Tier 1 criteria

Public accountability

What does public accountability mean in the ASF?

PBE entities generally have broad accountability relationships. Public Sector entities may be accountable to Parliament, Ministers, councils, taxpayers, ratepayers and communities, while NFP entities may be accountable to donors, members, funders, beneficiaries and communities.

However, public accountability has a much narrower and specific meaning in the ASF. It principally captures entities accessing public capital markets or holding assets in a fiduciary capacity for a broad group of outsiders as a primary activity, together with entities deemed to have higher levels of public accountability under relevant New Zealand legislation.

As a result, relatively few PBEs appear to be in Tier 1 because of public accountability rather than their size.

Does public accountability still need to be a separate Tier 1 criterion?

In practice, public accountability appears to have little effect on which PBEs report in Tier 1. We are not aware of many PBEs that are in Tier 1 because of public accountability rather than their size.

Removing the criterion could therefore simplify the requirements for determining Tier 1 eligibility.

However, there are reasons it could be retained:

- it provides a safeguard where an entity has particular capital-market or fiduciary responsibilities that are not reflected by its size; and
- it maintains consistency with the wider ASF.

We have separately considered whether the definition of public accountability should change and have not identified a strong case for doing so. The existing definition is internationally aligned and has links to wider New Zealand reporting requirements.

The issue we are therefore exploring is narrower: should public accountability continue to operate as a separate Tier 1 criterion for PBEs?

GAAP and non-GAAP reporting

Why are we considering this?

Legislation generally determines whether an entity must prepare financial statements in accordance with GAAP or is permitted to use a non-GAAP reporting standard.

The ASF currently brings these pathways together within the tier structure:

- Tiers 1 to 3 are GAAP reporting; and
- Tier 4 is non-GAAP reporting.

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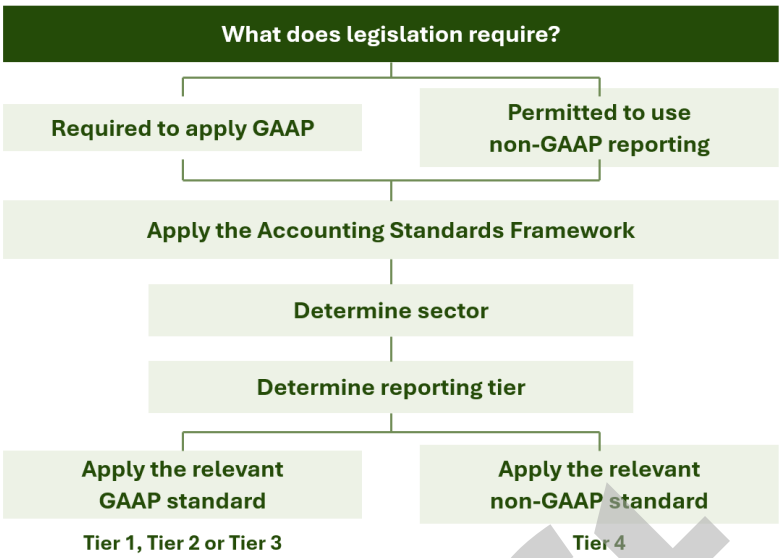


The four-tier presentation can suggest that Tier 4 is simply the next reporting level below Tier 3. However, there is a more fundamental distinction: Tiers 1 to 3 are GAAP reporting frameworks, while Tier 4 is a non-GAAP reporting framework.

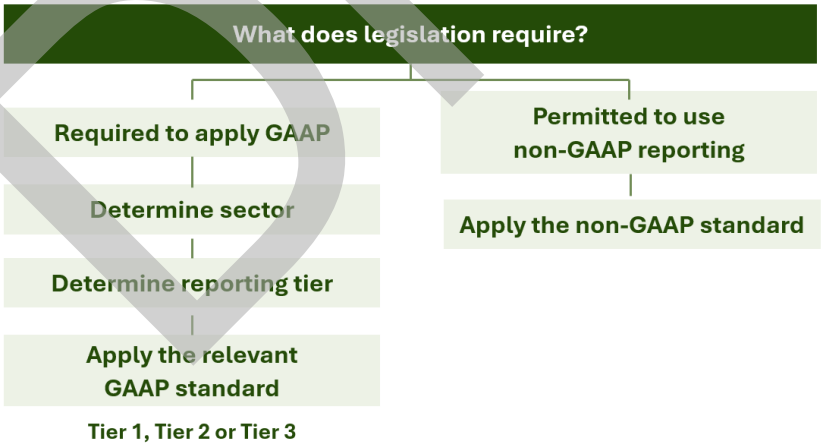
The GAAP/non-GAAP question may therefore arise before determining an entity's reporting tier.

What could change?

An alternative would be for the ASF to distinguish between:

- **GAAP reporting**, with the sector and tier structure then allocating entities to the appropriate GAAP standard; and
- **non-GAAP reporting**, presented separately.

Conceptually, the pathway would become:



This could make the ASF easier to navigate and better reflect how an entity determines its reporting requirements.

The trade-off is that it would change the familiar four-tier presentation of the PBE framework, and it may not reflect how entity's actually work out what their reporting requirements are (i.e. they may rely on communications of the size boundaries for the tiers, rather than understanding the legislative obligation).

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Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Review of the Accounting Standards Framework (ASF)

Optionality within the ASF

NZASB meeting 24 November 2026

Agenda item 5.3

Presenter:

Leana van Heerden
Raveen Kaur

Purpose and recommendation

This paper continues the detailed analysis of the ASF review by seeking the Board's views on optionality, element 2 of the consolidated view.

1 Purpose of this paper

Test our approach to optionality ahead of the Discussion Paper

- Show where optionality sits: for-profit Tier 2 and NFP Tiers 1 and 2
- Explain why the nature of the choice differs between the two sectors
- Set out the guardrails that keep optionality a choice between complete frameworks
- ***Note***: Discussion Paper wording on optionality will sit in the sections where it is proposed, so there is no separate DP wording section in this agenda item

2 What we need from the Board

It is recommended that the Board:

- Provide FEEDBACK on the proposed differentiated approach to optionality for consultation
- Provide FEEDBACK on the proposed guardrails, and any further safeguards or evidence needs to explore

Board feedback is sought on the approach to optionality

Where optionality sits in the consolidated view

Optionality is element 2 and is being considered as a cross-cutting ASF design choice.



Element 2: Optional frameworks

Through our detailed analysis of different frameworks, options were proposed in two places:

- For-profit Tier 2
- NFP Tiers 1 and 2

The nature of the choice differs between the two sectors.

Optionality is proposed in two places

The common principle is framework choice within a tier, but the status of the available frameworks differs.

1 For-profit Tier 2

Two equally available and maintained options

Entities select the framework that best meets user needs and their preferred balance between alignment and simplification.

2 NFP Tiers 1 and 2

One preferred NFP framework, with secondary alternatives

Alternative frameworks support specific user or mixed-group needs, but are applied as issued and are not tailored by the XRB for NFP entities.

Complete framework choice, not selection of individual requirements

For-profit Tier 2: two equal framework options

Stakeholder feedback to date is varied, refer to agenda item 3.1, for some entities Trans-Tasman alignment is important, while others highlight simplicity as the main objective. Optionality lets each Tier 2 entity weigh its own user needs and follow the framework that suits them.

FOR-PROFIT TIER 2 ENTITY

EQUAL STATUS

Option A Reduced disclosure framework

Full IFRS recognition and measurement
Reduced disclosures, such as NZ IFRS RDR or IFRS 19
Maintains stronger IFRS and trans-Tasman alignment

Option B Simplified framework

Simplified recognition and measurement
A complete framework such as IFRS for SMEs
Accepts less international and Australian alignment in return for simpler requirements

64%

Polling results to date indicated 64% of respondents were very or somewhat willing to accept reduced international and Australian alignment for simpler reporting.

Entity choice should be driven by user needs, group context and the expected balance of costs and benefits.

NFP Tiers 1 and 2: preferred framework plus options

The preferred framework remains designed around NFP transactions, accountability and stewardship needs.

PREFERRED NFP FRAMEWORK – e.g. INPAS

Issued and maintained for NFP entities, with requirements focused on NFP transactions, accountability, stewardship and relevant service performance needs.

SECONDARY OPTIONS, e.g. IFRS OR PBE STANDARDS BASED ON IPSAS, WHERE SPECIFIC NEEDS JUSTIFY THEM

Applied "as is"

Not amended or maintained by the XRB for NFP purposes. The entity applies the complete authorised alternative.

Mixed-group needs

May reduce conversion or duplicate reporting where a controlling entity uses another framework.

Other user needs

May support overseas funders, international relationships or other defined reporting needs.

Secondary alternatives do not displace the preferred NFP framework.

Optionality must be a choice between complete frameworks

Clear guardrails and other considerations are needed so that optionality improves the framework architecture without creating an unstructured menu of accounting treatments.

1	**Complete application**	Apply one authorised framework in full. No mixing and matching of recognition, measurement or disclosure requirements.
2	**Eligibility and switching**	Define who may elect an option, how long it is used and what happens when eligibility is lost or circumstances change.
3	**Group and user impacts**	Assess consolidation adjustments, funder and lender requirements, comparability and information required by users.
4	**Implementation and ecosystem impact**	Consider workforce capability, systems, training, licensing, due process, ongoing maintenance and transition costs.
5	**Legislative context and approvals**	Consider the legislative context for the options offered and how they are offered, especially for NFP optionality, including any ministerial approval requirements.

Board feedback

Does the Board have any FEEDBACK on the proposed:

a) Optionality approach for Tier 2 for-profit entities;

b) Optionality approach for Tier 1 and Tier 2 NFP entities; and

c) Guardrails, and any further optionality safeguards or evidence needs to explore.

End of session 5.3

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	New Zealand Accounting Standards Board (**NZASB**)
Meeting date:	24 November 2026
Subject:	**Accounting Standards Framework review – Use of artificial intelligence in applying accounting standards**
Date:	11 November 2026
Prepared by:	Raveen Kaur
Through:	Nimash Bhikha; Michelle Lombaard

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

Purpose

1. The purpose of this paper is to consider how developments in artificial intelligence (**AI**) may influence the accessibility and consistent application of accounting standards under different Accounting Standards Framework (**ASF**) options, with particular regard to frameworks containing New Zealand-specific modifications, and whether these developments could affect the implementation and ongoing costs of different ASF options.
2. This paper seeks the Board's feedback on whether and how these considerations should be reflected in the public discussion paper for the ASF review. It does not recommend or endorse any particular accounting framework. The analysis distinguishes published evidence on AI's capabilities and limitations from potential implications of implementing New Zealand locally modified standards, which have not been measured directly.

Recommendations

3. The NZASB is invited to:
   (a) **NOTE** that AI-assisted research tools are developing rapidly but remain subject to reliability risks. International alignment may provide a wider range of examples and explanations for AI-assisted research. Where New Zealand standards differ, additional examples and data points may be needed to assist AI tools in identifying and interpreting the applicable requirements accurately, while technological developments may also reduce the costs of identifying and explaining those differences;
   (b) **AGREE** to consider the availability and reliability of AI-assisted support and its potential effects on implementation and ongoing costs over time in the ASF cost-benefit assessment, not as a separate basis for choosing a framework; and
   (c) **PROVIDE FEEDBACK** on the analysis and proposed consultation blue extract.

Scope of this paper

4. This paper considers the use of AI technology in accounting standards application across for-profit entities in Tiers 1 and 2 and public sector (**PS**) and not-for-profit (**NFP**) public benefit entities (**PBEs**) in Tiers 1–4.

5. It focuses on the use of AI to locate, summarise and explain reporting requirements, identify differences and amendments, and support implementation guidance. It does not assess automated preparation or audit of financial statements, endorse an AI provider, propose a new External Reporting Board (**XRB**) technology service or reopen the technical assessment of individual framework options within the ASF review.

How to read this paper

6. This paper addresses a cross-cutting consideration and should be read alongside the **Overarching background and context paper**, the individual tier framework review papers for each sector and, in particular, the earlier NZASB paper **Possible approach to the development of locally modified standards**.

Background

7. The ASF review considers whether New Zealand's tiered and sector-based reporting arrangements remain fit for purpose, internationally aligned and locally relevant, while balancing reporting benefits and costs. [1]

8. In New Zealand, legislation establishes entities' financial reporting obligations, while the Accounting Standards Framework (**ASF**), applied through XRB A1 *Application of the Accounting Standards Framework*, determines the applicable reporting tier and suite of standards.[2]

9. The current framework draws on international standards, principally International Financial Reporting Standards (**IFRS**) and International Public Sector Accounting Standards (**IPSAS**), alongside New Zealand-specific requirements and domestic standards. Although international frameworks provide the basis for many of New Zealand's accounting requirements, the applicable New Zealand standards remain authoritative. This distinction is particularly relevant when considering whether AI tools can reliably identify and interpret New Zealand-specific requirements and modifications.

10. The NZASB previously considered locally modified standards as a potential alternative framework option across the for-profit sector, public sector and not-for-profit sector. The locally modified standards approach would mean taking an established jurisdiction's reporting framework in the respective sector and making targeted modifications to suit the New Zealand context, rather than developing the standards from a blank page.

11. The **Possible approach to the development of locally modified standards paper** identified potential local-relevance benefits alongside additional standard-setting, maintenance, education and implementation costs. The prevalence of AI technology therefore introduces an important consideration for this ASF review: what source materials will people and digital tools be able to use to explain the accounting reporting requirements as accurately as possible? [3]

What AI is, how it works and how it has developed

12. Artificial intelligence (**AI**) broadly refers to machine-based systems that can process information and generate outputs, such as predictions, content, recommendations or decisions. The

[1] XRB, *2027 Review of the Accounting Standards Framework*. The review considers whether the framework remains fit for purpose, internationally aligned and locally relevant, with regard to users' information needs and the appropriate balance between reporting benefits and costs.

[2] XRB, XRB A1 Application of the Accounting Standards Framework.

[3] NZASB, Review of the ASF – Possible approach to the development of locally modified standards (6 August 2026). This earlier NZASB public Board paper, accessible from the XRB ASF review page under locally modified standards; it identifies local tailoring benefits and the resourcing, maintenance and international-support trade-offs.

Organisation for Economic Co-operation and Development (**OECD**) defines an AI system as follows:

> *"An AI system is a machine-based system that, for explicit or implicit objectives, infers, from the input it receives, how to generate outputs such as predictions, content, recommendations, or decisions that can influence physical or virtual environments. Different AI systems vary in their levels of autonomy and adaptiveness after deployment."*[4]

13. Generative AI is a subset of AI capable of producing new content, including text, images and other information. Large language models (**LLMs**), which underpin many generative AI tools, are trained on large amounts of data to identify patterns in language and generate responses to questions or instructions. Unlike conventional search tools, which primarily help users locate information, LLM-based tools can generate explanations, summaries and responses in ordinary language.[5]

14. AI capabilities have developed rapidly, with tools increasingly able to combine language generation, document retrieval, web search and multi-step research. The Stanford University 2026 AI Index Report identifies substantial improvements in model performance across several benchmarks, although capabilities remain uneven across tasks, including those requiring professional judgement. These developments create opportunities to improve access to, and understanding of, technical accounting requirements. However, improvements in general AI capabilities do not necessarily translate into consistently accurate accounting interpretations.[6]

15. For the purposes of this paper, it is useful to distinguish three approaches to accessing accounting requirements:

    - **Search tools** identify relevant documents or information for users to review and interpret.
    - **LLM-based tools** generate responses using patterns learned during training and information supplied by the user or connected systems.
    - **Retrieval-augmented generation (RAG)** combines an LLM with an information retrieval system that retrieves relevant information from external sources, such as document collections or databases, to inform the model's response.

16. These approaches are not mutually exclusive and may be combined within a single AI-assisted research tool. RAG can improve the grounding of responses in relevant source material, although its effectiveness depends on the availability, completeness and currency of the information retrieved, as well as the model's interpretation of that information.[7]

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[4] Organisation for Economic Co-operation and Development (OECD), *Explanatory memorandum on the updated OECD definition of an AI system* (2024), explains the OECD's definition of an AI system. See also New Zealand Government, *Glossary of AI terms*, for definitions of generative AI and LLMs.

[5] Organisation for Economic Co-operation and Development (OECD), *Explanatory memorandum on the updated OECD definition of an AI system* (2024), explains the OECD's definition of an AI system. See also New Zealand Government, *Glossary of AI terms*, for definitions of generative AI and LLMs.

[6] Stanford Institute for Human-Centered Artificial Intelligence, *2026 AI Index Report: Technical Performance*, reports changes in AI capabilities across technical and professional benchmarks and identifies continuing limitations and uneven performance across tasks.

[7] National Institute of Standards and Technology (NIST), *Retrieval-Augmented Generation – CSRC Glossary*, defines RAG as a generative AI system that combines a model with a separate information retrieval system or knowledge base, allowing retrieved information to inform generated responses. See also Lewis et al. (2020), *Retrieval-Augmented Generation for Knowledge-Intensive NLP Tasks*, which introduced the RAG approach; and New Zealand Ministry of Business, Innovation and Employment, *Artificial Intelligence Glossary*, for a practical definition of RAG.

17. Importantly, depending upon system configuration settings and data accessibility, an LLM does not inherently have access to current websites, licensed accounting standards or authoritative interpretations. Its training information may be incomplete or outdated, while systems connected to external sources may retrieve superseded requirements, international guidance or material from an incorrect jurisdiction.

18. Even where an AI-generated response includes references, this does not establish that the response accurately reflects the cited material. Users therefore need to verify that the information reflects the applicable standards, reporting tier, reporting period and relevant amendments.[8]

International alignment and the availability of supporting material

19. Internationally adopted accounting standards may benefit from a broader ecosystem of implementation experience, technical guidance and explanatory material. For IFRS Accounting Standards, this includes IFRS Interpretations Committee agenda decisions, educational resources and implementation support developed by the IFRS Foundation, alongside commentary from accounting professionals across jurisdictions.

20. Such material may assist preparers and AI tools in identifying and interpreting accounting requirements, provided it is relevant, current and lawfully accessible. The status of supporting material also matters. For example, explanatory material in IFRS Interpretations Committee agenda decisions cannot add to or change the requirements of IFRS Accounting Standards.[9]

21. Some international frameworks may also have dedicated educational resources, including modules containing examples, explanations of significant judgements and comparisons. However, modules may not be authoritative or approved interpretations and may be subject to regular updates. The availability and status of supporting material must therefore be assessed against the specific framework and version being considered when using AI.[10]

22. International alignment does not ensure that every accounting question has an available or authoritative answer. The nature and extent of implementation support also differ between IFRS Accounting Standards, the IFRS for SMEs Accounting Standard and IPSAS. In New Zealand, Tier 1 and Tier 2 PBE Standards are primarily based on IPSAS but include modifications and requirements specific to the New Zealand context. Accordingly, international guidance may be informative but must be assessed against the applicable New Zealand requirements before being relied upon.[11]

Implications of locally modified and domestic standards

23. A potential additional risk arises where New Zealand accounting requirements differ from their underlying international standards. AI tools that draw predominantly on international material may overlook New Zealand-specific modifications or provide explanations that are correct

[8] National Institute of Standards and Technology (NIST), *Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile* (NIST AI 600-1, 2024), section 2.2, identifies risks arising from confidently incorrect information, including fabricated explanations and citations.

[9] XRB, *IFRS Interpretations Committee – Process and Status of Agenda Decisions*, explains the status of agenda decisions and their relevance to entities applying NZ IFRS.

[10] IFRS Foundation, *IFRS for SMEs Accounting Standard – Educational Modules*, describes the content, purpose and non-authoritative status of the modules and their ongoing update for the 2025 edition. See also *The IFRS for SMEs Accounting Standard*, for information on the editions and effective dates.

[11] XRB, XRB A1 *Application of the Accounting Standards Framework*, including its Basis for Conclusions, explains the basis of New Zealand's PBE Standards and the rationale for modifying IPSAS requirements. See also IPSASB, *2026 Handbook of International Public Sector Accounting Standards Board Pronouncements*, which contains the international IPSAS source standards and Conceptual Framework.

under the international framework but incorrect for a New Zealand reporting entity. This is a potential risk of misapplication rather than evidence that AI performs less reliably under locally modified or domestic standards. Clearly documented differences, accessible authoritative requirements and current implementation guidance may help mitigate this risk.

24. The existing ASF provides practical examples. Tier 2 for-profit entities applying the NZ IFRS Reduced Disclosure Regime (**NZ IFRS RDR**) are eligible for specified disclosure concessions compared with entities applying full NZ IFRS. An AI-generated response based solely on full IFRS requirements could therefore incorrectly identify a disclosure as mandatory for a Tier 2 entity. [12]

25. Similarly, an IPSAS-based response may overlook a New Zealand-specific PBE requirement. For PS and NFP entities applying Tier 3 or Tier 4 requirements, domestic standards govern reporting rather than international frameworks such as IFRS or IPSAS. Existing XRB explanatory guides, frequently asked questions (FAQs) and reporting templates demonstrate the role of locally developed implementation support, although such material must be distinguished from authoritative standards.[13]

26. Conversely, a concise and clearly structured domestic standard, supported by accessible guidance, may be easier for preparers and AI tools to navigate than a more complex international framework. Domestic standards may also better reflect New Zealand reporting needs; AI and other digital tools may also reduce the costs of identifying, explaining and maintaining New Zealand-specific requirements. Accordingly, the relevant consideration is not international alignment alone, but the accessibility, clarity, consistency and maintenance of the standards and supporting material available under each framework option.

27. The potential implications of different approaches to international alignment are summarised below.

Framework approach	Potential benefit for AI-assisted use	Principal qualification
Close international alignment (for example, Tier 1 for-profit)	Shared terminology, international implementation experience and supporting material may be more readily reusable.	International guidance may be outdated, inaccessible or inapplicable to the relevant New Zealand requirement or reporting period.
Internationally based standards with New Zealand adaptations (for example, Tier 2 RDR and PBE Tiers 1–2)	International material may support interpretation where requirements remain aligned. Digital tools may also assist in identifying and explaining New Zealand-specific differences.	New Zealand-specific requirements, disclosure concessions and other differences must be correctly identified.
More extensive local modifications or domestic standards (including PBE Tiers 3–4)	Standards and guidance can be designed around New Zealand reporting needs and expressed in accessible, plain language. Technology may also assist in developing and maintaining this material.	Dedicated implementation guidance, maintenance and validation may be needed where international material is less directly applicable.

[12] XRB, XRB A1 *Application of the Accounting Standards Framework*, including the Basis for Conclusions on Tier 2 for-profit reporting; and NZ IAS 1 *Presentation of Financial Statements*, which includes RDR disclosure concessions and associated requirements.

[13] XRB, *FAQs – Tier 3 and Tier 4 Not-for-Profit Reporting*, provides non-binding implementation guidance. See also *Reporting Requirements for Tier 3 Not-for-Profit Entities* and *Tier 4 Not-for-Profit Reporting Requirements*, which provide access to the domestic standards and reporting templates.

Reliability, source access and evidence limitations

28. AI-generated responses can contain incorrect statements, omit relevant exceptions, misinterpret source material or provide fabricated references. The United States National Institute of Standards and Technology (NIST) identifies these risks in its Generative Artificial Intelligence Profile, including the potential for confidently presented but inaccurate information. These limitations are relevant across all accounting frameworks, regardless of their degree of international alignment. Access to authoritative material and source citations may improve reliability, but neither eliminates the need to validate responses against applicable accounting requirements.[14]

29. The availability of standards online does not necessarily mean that AI tools can lawfully access, reproduce or incorporate their content. Accounting standards and supporting material may be subject to copyright, registration, subscription or licensing requirements. For example, the IFRS Foundation permits specified non-commercial uses of IFRS Accounting Standards but requires licensing for other uses, including integration into products and services. These considerations may affect the development of specialist AI tools and the extent to which international material can be incorporated into them.[15]

30. Evidence concerning the comparative reliability of AI across different accounting frameworks remains limited. Research published in 2025 examining specialist AI legal research tools found that retrieval-assisted systems continued to produce unsupported or incorrect responses, notwithstanding improvements over general-purpose systems. However, those findings relate to legal research and cannot be used to estimate AI accuracy in accounting applications. The evidence reviewed for this paper does not establish whether AI performs more accurately under unmodified international accounting standards than under New Zealand-modified or domestic standards. Any differences in performance would require testing using representative accounting questions, authoritative standards and comparable AI systems.[16]

31. Overall, AI-related considerations may be relevant to assessing the implementation implications of different ASF options, particularly the availability, accessibility and maintenance of authoritative standards and supporting guidance. Technological developments may also affect the relative costs of implementing and maintaining different framework options over time. However, the current evidence does not establish that international alignment, in itself, produces more reliable AI-assisted accounting interpretations or lower overall implementation costs.

Considerations for the ASF assessment and consultation

32. The increasing use of AI may have implications for the implementation and ongoing support required under different ASF options. Where New Zealand requirements differ from international standards, additional explanatory material may be needed to help users and AI-assisted tools identify and apply those differences. Potential measures could include clearly documented departures from source standards, accessible versions of applicable requirements and

[14] National Institute of Standards and Technology (NIST), *Artificial Intelligence Risk Management Framework: Generative Artificial Intelligence Profile* (NIST AI 600-1, 2024), section 2.2, identifies risks associated with confidently incorrect AI-generated information, including fabricated content and references. See also Farquhar et al. (2024), Detecting hallucinations in large language models using semantic entropy, Nature 630, 625–630, which provides empirical evidence on detecting unreliable AI-generated responses.

[15] IFRS Foundation, *IFRS Accounting Licensing*, explains the distinction between permitted non-commercial use and licensed integration of IFRS Accounting Standards into products and services. See also *IFRS Foundation Website Terms and Conditions*, for conditions governing access to and reuse of website content.

[16] Magesh et al. (2025), *Hallucination-Free? Assessing the Reliability of Leading AI Legal Research Tools*, Journal of Empirical Legal Studies, reports a preregistered empirical evaluation of specialist retrieval-assisted legal research tools. The study demonstrates continuing reliability limitations but does not assess accounting standards or compare international and domestic reporting frameworks.

amendments, effective dates, clear identification of the relevant reporting sectors and tiers, and examples illustrating New Zealand-specific treatments. Existing Tier 3 PS and NFP standards and supporting material provide examples of locally developed implementation resources.[17] However, the nature and cost of any additional support would need to be assessed against the benefits of the relevant framework option.

33. Irrespective of the framework adopted, it would be important to distinguish authoritative accounting requirements from non-authoritative explanatory material. AI-assisted tools may help users locate and understand requirements but should not be relied upon as substitutes for the applicable XRB-issued standards or the exercise of professional judgement. The accessibility, currency and clarity of authoritative standards and supporting material are therefore relevant considerations across all framework options.[18]

34. Stakeholder feedback and practical examples could assist in understanding whether AI-assisted tools create different benefits, risks or support needs under internationally aligned, locally modified or domestic standards. Any further testing or consideration of potential support measures would be subject to separate assessment. This paper does not propose a new XRB technology service or seek approval to undertake testing.

Extract of public discussion paper

35. Staff propose including the following extract in the public discussion paper to explain the potential implications of AI-assisted tools for the accessibility and application of accounting standards. The extract recognises both the potential benefits of international alignment and the value of clear, locally tailored requirements, without expressing a preference for any particular ASF option.

36. The proposed wording may be refined during final drafting to ensure consistency with the overall structure and presentation of the public discussion paper.

Proposed extract for the public discussion paper

AI and the application of accounting standards

Artificial intelligence (AI) tools are increasingly capable of helping users locate, summarise and explain accounting requirements. However, AI-generated responses may be inaccurate, outdated or based on requirements from another jurisdiction. Even where responses include references, they may misinterpret the underlying material. AI-generated explanations are not authoritative and should be checked against the applicable New Zealand accounting standards, including the relevant reporting tier, effective date and amendments.

Internationally aligned accounting standards may benefit from a broader range of implementation guidance, examples and explanatory material that can support AI-assisted research, subject to accessibility and licensing conditions. Where New Zealand standards differ from their international counterparts, AI tools may overlook local requirements or incorrectly apply international guidance. This may create a need for additional New Zealand-specific explanatory material to help stakeholders understand the requirements and create more data points for AI tools to consider. Conversely, clearly structured domestic standards and locally tailored guidance may make requirements more accessible and easier to interpret. AI and other digital tools may also make New Zealand-specific differences easier and less costly to identify, explain and maintain.

[17] XRB, *Reporting Requirements for Tier 3 Public Sector Entities* and *Reporting Requirements for Tier 3 Not-for-Profit Entities*. These pages provide the applicable domestic standards and access to supporting material, including explanatory guidance and, for NFP entities, reporting templates.

[18] XRB, *Standards and Guidance*. The XRB explains that accounting standards, interpretations, amendments and revocations are secondary legislation, while non-authoritative implementation guidance published alongside standards does not form part of that legislation.

The potential implications of AI are being considered as part of the wider assessment of the benefits and costs associated with different Accounting Standards Framework options. As the ASF is intended to operate over many years, this assessment also needs to recognise that technological developments could change the relative costs of different options over time.

There is currently insufficient evidence to conclude that AI tools perform more reliably when interpreting internationally aligned standards than New Zealand-modified or domestic standards. We are interested in understanding stakeholders' practical experiences and whether different approaches to developing accounting standards could affect the usefulness, reliability or cost of AI-assisted support.

Question for stakeholders

- **Based on your experience, what benefits or difficulties have you encountered when using AI-assisted tools to understand or apply New Zealand accounting standards, particularly where requirements differ from international standards? Please provide practical examples, identify any additional guidance or support that would be useful and any associated costs or savings, and indicate whether you expect technological developments to make particular ASF options more or less practicable over time.**

Matters that could inform the assessment

37. The preliminary assessment recognises that international alignment may provide access to a broader range of implementation support, while New Zealand-specific requirements may create additional needs for explanatory material. However, these potential implications have not been established through direct comparative testing of AI-assisted accounting interpretations. Evidence demonstrating material differences in reliability, accessibility or implementation costs across framework options could inform the assessment.

38. In particular, practical evidence about the frequency and significance of incorrect interpretations, the availability of relevant supporting material, and the costs of developing or maintaining New Zealand-specific guidance would help establish whether AI-related considerations have a material bearing on the relative costs and benefits of different framework options.

39. The assessment should also be forward-looking, recognising that technology-enabled savings for some parties may require investment by others, including reporting entities, auditors, software providers and the XRB, and that implementation, licensing, validation and maintenance may create additional costs.

40. Such evidence would need to be considered alongside the wider objectives of the ASF, including meeting users' information needs, maintaining reporting quality and achieving an appropriate balance between the benefits and costs of reporting.

Questions for the Board

Q1. Does the Board **AGREE** that the implications of AI-assisted tools should be considered as part of the broader assessment of implementation costs and benefits under the ASF Review, recognising the potential advantages of international alignment, the implications of New Zealand-specific requirements and the limitations of current evidence?

Q2. Does the Board have any **FEEDBACK** on the proposed public discussion paper extract and consultation question, including whether additional practical examples or targeted stakeholder evidence would inform the May 2027 discussion paper?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Revenue and Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**Overview of agenda items 7, 8 and 10 on ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses***
Date:	11 November 2026
Prepared by:	Carly Berry and Gali Slyuzberg
Through:	Michelle Lombaard

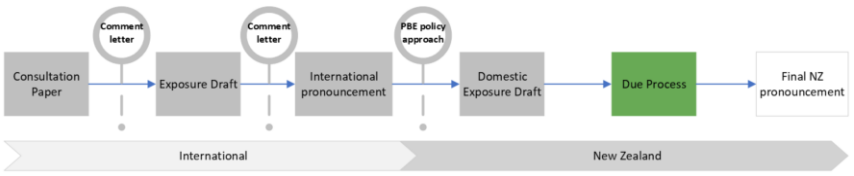
☐ **Action Required** ☒ **For Information Purposes Only**

COVER SHEET

Project priority and complexity

Domestic project purpose	Develop new PBE Standards for revenue and transfer expenses using IPSAS 47 *Revenue* and IPSAS 48 *Transfer Expenses* as respective starting points, while also ensuring that the standards are fit-for-purpose in New Zealand.
Benefit vs cost considerations	The Board discussed these considerations at the June 2023 and December 2024 meetings, and the consultation documents included specific questions on this matter. At this meeting, the Board will consider the stakeholder feedback on the benefits and costs of the proposed standards. We will perform a final benefit vs cost assessment prior to issuing new PBE Standards.
Project priority	**High** The proposed new PBE Standards address the accounting for revenue and transfer expense transactions, which are prevalent and significant across both the not-for-profit (NFP) and public sectors.

Overview of agenda item

Project status	
Board action required	**High complexity** • **AGREE** with our recommended actions in agenda items 7, 8 and 10 • **PROVIDE FEEDBACK** where indicated in agenda items 7, 8 and 10

Introduction

1. The Revenue and Transfer Expenses projects were added to the work plan in June 2023, when the Board agreed to develop new PBE Standards for revenue and transfer expenses, using IPSAS 47 and IPSAS 48 as respective starting points.

2. In June 2025 we published ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standards') for public consultation over a six-month period, closing on 1 December 2025. During the consultation period, we engaged with over 300 stakeholders and received eight written submissions (available on our website here).

3. After the consultation period, we followed up with the eight stakeholders that provided written submissions to clarify aspects of their comments, particularly from a benefits vs costs perspective. We are continuing to engage with key stakeholders as we work through our analysis of the feedback.

4. At the April and June 2026 meeting, the Board considered our analysis of, and recommended actions in response to, the stakeholder feedback relating to the binding arrangement principle. At the October 2026 meeting, the Board agreed that the proposed standards will not have a mandatory date of 1 January 2029 or earlier. Decisions made by the Board at these meetings are listed in the Appendix to this memo.

5. In agenda items 7, 8 and 10, we present our analysis of stakeholder feedback, and recommended actions, relating to the topics listed in the table below:

Content of agenda items 7, 8 and 10

Item #	Title
Both proposed standards	
7.1 – 7.9	Feedback analysis on the benefits and costs of the proposed standards
ED PBE IPSAS 47	
8.1 – 8.5	Feedback analysis on the proposed accounting requirements for revenue with and without binding arrangements
8.6	Update on field testing – ED PBE IPSAS 47
ED PBE IPSAS 48	
10.1	Scope of PBE IPSAS 48 *Transfer Expenses*
10.2 – 10.3	Feedback analysis on the proposed accounting requirements for transfer expenses with and without binding arrangements
10.4	Update on field testing – ED PBE IPSAS 48

Appendix: Summary of Board decisions to date on the analysis of feedback received on both proposed standards

Meeting	Outcome	Staff action
October 2026	The Board **AGREED** that the proposed standards will **not** have a mandatory date of 1 January 2029 or earlier.	Recommend a new mandatory date for Board approval at a future meeting
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.	

[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.

	• 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).	
	• 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 • Tax revenue – Time-value of money	IAG submission was made on 18 June 2026
	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	

[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.

	• 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	
	• 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

NZASB – PBE Standards – Revenue and Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**Overview of the feedback received on the benefits and costs of ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses***
Date:	11 November 2026
Prepared by:	Carly Berry
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose and introduction

1. In agenda items 7.3 – 7.6, we present our analysis of stakeholder feedback on the **benefits and costs** of adopting ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standards'), as well as our recommended actions in response.

2. The purpose of this analysis is to:

   (a) understand the views of stakeholders on the benefits and costs of adopting the proposed standards; and

   (b) develop recommended actions to respond to the feedback on costs, with the aim of mitigating these costs.

3. At this time, we are **not** asking the Board to conclude on whether the benefits of adoption outweigh the costs for each proposed standard. Once we have completed our technical analysis of all the feedback, we will perform a final benefits vs costs assessment, taking into account all the Board decisions made in response to the consultation feedback. At that time, we will ask the Board to conclude on whether the benefits of adoption outweigh the cost for each proposed standard. The Board's decisions in this regard will inform whether we proceed to issuing the final standards.

Content of agenda item 7.3 – 7.6

Item #	Title
7.3	**Board memo – Feedback analysis on the benefits of adopting the proposed standards** This agenda item analyses the feedback received in support of the anticipated benefits identified in the consultation documents, as well as the feedback challenging those benefits.
7.4	**Board memo – Feedback analysis on high volume, low value transactions**

	This agenda item considers five possible actions to respond to the stakeholder feedback on this matter and makes recommendations for Board approval.
7.5	**Board memo – Feedback analysis on the application of paragraph AG39 in the proposed transfer expenses standard** This agenda item considers three possible actions to respond to stakeholder feedback relating to estimation of the transfer recipient's progress towards satisfying obligations in a binding arrangement. Recommendations are made for Board approval.
7.6	**Board memo – Feedback analysis on other topics relating to cost** This agenda item considers the remaining feedback on the costs of adopting the proposed standards and makes recommendations for Board approval.

4. The following supplementary (Board-only) papers accompany these agenda items:
   (a) 7.7: ED PBE IPSAS 47 and ED PBE IPSAS 48 benefit vs cost detailed feedback
   (b) 7.8: Draft CAS assessment – PBE IPSAS 47
   (c) 7.9: Draft CAS assessment – PBE IPSAS 48

Overview of the comments included in the analysis

5. The analysis in agenda item 7 includes 159 comments from respondents:
   (a) 66 comments relating only to the proposed **revenue** standard;
   (b) 54 comments relating only to the proposed **transfer expenses** standard; and
   (c) 39 comments relating to **both** proposed standards.
6. Agenda item 7.7 sets out all the comments, in detail, that are included in the analysis. We have given each comment a unique number so that the Board can refer to that agenda item as necessary.

Identification of the feedback to include in the analysis

All comments relating to Consultation Question (CQ) 1

7. The 159 comments were made largely in response to CQ 1 in both the revenue and transfer expense ED consultations:

> ***1(a) What are the anticipated benefits of adopting the proposed PBE IPSAS 47/48 for your organisation? Please provide specific examples.***
>
> ***1(b) What are the anticipated initial and ongoing costs your organisation may incur in adopting the proposed PBE IPSAS 47/48? Please provide specific examples.***
>
> ***1(c) Considering the benefits and costs identified above, do you expect the benefits of adopting PBE IPSAS 47/48 to outweigh the costs for your organisation? Please explain your reasoning.***

8. For completeness, the analysis includes comments addressed as part of the feedback analysis on the binding arrangement principle (presented to the Board in April and June 2026), **if they relate to Consultation Question 1**. Including comments previously presented to the Board has the following purpose:

   (a) Providing the Board with a complete picture of respondents' views on the benefits and costs of the proposed standards.

   (b) Considering whether Board decisions made relating to comments on the costs of the binding arrangement principle would apply to similar comments in the benefit vs costs analysis.

Comments relating to other CQs, if related to benefits vs costs

9. Comments relating to benefits and costs that were made in response to other CQs are included in the analysis as well, so that the Board has a complete picture of respondents' views of the benefits and costs of the proposed standards. However, in some cases we do not consider *how* to address these comments in agenda items 7.3 – 7.6. This is because comments relating to certain topics need to be addressed alongside other comments that relate to those topics. For example, all comments on the following topics will be addressed together in separate agenda items at a future meeting:

   (a) Disclosure and RDR concessions

   (b) Transition and mandatory date

Comments from respondents to help address cost challenges

10. We have included in the analysis those comments from respondents that provide suggestions on how to assist with implementation or ongoing challenges relating to application of the standards. Doing so ensures that we take into account different views when developing our recommended actions to respond to identified cost challenges.

Analysis includes comments received through post-consultation meetings with respondents

11. After the consultation period, we followed up with the eight stakeholders that provided written submissions to clarify aspects of their comments, particularly from a benefits vs costs perspective. Comments raising additional matters that we heard during these meetings are included in our analysis.

Process followed to analyse the feedback

Separation of comments into those relating to benefits and those relating to costs

12. We have grouped the 159 comments into those that relate to benefits (agenda item 7.3) and costs (agenda items 7.4 – 7.6). In some circumstances, a comment may raise both a benefit and a cost. Each aspect of the comment will be addressed in the relevant agenda items.

Further separation of cost comments into topics

13. To assist with our analysis of the feedback received on the anticipated **costs**, we have grouped the feedback into topics. The table below provides a snapshot of these topics and the number of comments relating to each one.

Topic	Proposed standard	Number of comments	Agenda item #
High volume / low value arrangements	Both	12	**7.4**
Tracking a transfer recipient's progress toward complete satisfaction of obligations	Transfer expenses	13	**7.5**
Time and resources required on adoption	Both	31	**7.6**
Ongoing application costs relating to judgements and assessment of new and revised arrangements	Both	25	
Not-for-profit (NFP) concerns about capability and capacity	Both	13	
Adoption effort not seen to result in actual change	Revenue	4	
Audit costs / challenges	Both	9	
Terminology concerns	Both	9	
Difficult / challenging to understand the requirements	Both	7	
Updating systems, processes and/or documentation	Both	5	
Other concerns[1]	Both	15	

Note – many comments contain more than one topic. As we address each topic, we will address those aspects of each comment that relate to that topic.

14. For the purposes of efficiency (and where appropriate), we have addressed comments that relate to both proposed standards together.

Identical/similar comments on both proposed standards addressed together

15. For the purposes of efficiency (and where appropriate), we have addressed comments that relate to both proposed standards together.

Possible recommended actions

16. We have analysed each comment to determine our recommended action, being one of the five actions in the table below.

[1] "Other" consists of topics containing only one comment, as well as topics that will be fully addressed at future meetings (e.g., disclosure, transitional provisions).

A	Addition/amendment to **authoritative text** within the proposed standards (i.e. core text or Application Guidance paragraphs)
B	Addition/amendment to **non-authoritative text** within the proposed standards (i.e. Implementation Guidance paragraphs, illustrative examples, Basis for Conclusion paragraphs)
C	Adoption and implementation support
D	Refer to the IPSASB Application Group
E	No further action required

Next steps

17. We have concluded most of our assessment of the feedback relating to the benefits and costs of adopting the proposed standards in agenda items 7.3 – 7.6. As noted in this memo, some of the feedback on benefits and costs will be addressed as part of other topics at future meetings. These topics include:

    (a) Transition and mandatory date

    (b) Presentation and disclosure (including RDR concessions)

18. Some of the feedback – particularly on challenges raised on the anticipated benefits included in the consultation documents – will be addressed as part of the final benefits vs costs assessment (see paragraph 3 of this memo). We will also consider those comments relating to amendments or additions to illustrative examples as part of our review of those examples. We will bring recommendations on any amendments or additions to a future meeting.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Revenue and Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue and Transfer Expenses: Analysis of stakeholder feedback on the benefits of adopting the proposed standards**
Date:	11 November 2026
Prepared by:	Carly Berry
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose[1]

1. In this agenda item, we present our analysis of the feedback received from stakeholders (i.e. respondents) on the anticipated benefits of adopting the proposed PBE IPSAS 47 *Revenue* ('the proposed revenue standard') and the proposed PBE IPSAS 48 *Transfer Expenses* ('the proposed transfer expenses standard'). Our analysis focuses on:

   (a) whether respondents agree with the benefits that we identified in the consultation documents – **and where they do not agree, the reasons why**; and

   (b) identifying additional benefits noted by respondents.

2. The analysis in this agenda item is done separately for each proposed standard. The analysis is further split between feedback relating to the public sector and the not-for-profit (NFP) sector.

3. Agenda item 7.7 (Board-only paper) sets out the detailed comments on benefits received from respondents. We have given each comment a unique number so that the Board can refer to that agenda item as necessary. Some of the comments on benefits relate to both proposed standards – this is clearly shown in agenda item 7.7.

Recommendations

4. We recommend that the Board:

   (a) **NOTE** the analysis in this agenda item; and

   (b) **AGREE** with our recommended actions in response to the challenges raised by respondents on the benefits identified in the consultation documents.

   Please note – in some cases, we recommend reassessing the comment in the final cost/benefit assessment that we will perform prior to issuing the proposed standard. This

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is because the comment can only be adequately addressed once all potential cost mitigations have been explored and approved by the Board during the course of addressing the other feedback on the consultations (which will feed into the final cost/benefit assessment).

Structure of this agenda item

5. Pages 2-6 of this agenda item concerns the analysis relating to the proposed revenue standard. Pages 7-13 concerns the feedback relating to the proposed transfer expenses standard.

Overview of the feedback received on the proposed revenue standard

6. We received 35 comments directly relating to the anticipated benefits of adopting the proposed revenue standard. Of these comments:

   (a) 27 refer to the benefits of adopting the proposed standard.

   (b) The remaining 8 comments challenge the benefits identified in the consultation paper (i.e. "counter-benefits").

Feedback relating to anticipated benefits of adopting the proposed revenue standard				
Comments by sector				
	Public sector	**NFP**	**Both**	**Comment ref #**
Benefits	**15**	**7**	**5**	1-3, 5, 8, 9, 18-28, 30-33, 36, 88, 95, 106, 107, 122
Counter-benefits	**7**	**1**	**0**	4, 6, 12, 34, 94, 97, 129, 153

Feedback relating to anticipated benefits of adopting the proposed revenue standard	
Respondent	**Number of comments**
The Audit Office	1
Treasury	2
Auckland Council	6
CAANZ	3
Outreach feedback	19
Post-consultation follow-up with respondents	4
Total	**35**

Analysis of the feedback on the anticipated benefits of the proposed revenue standard

7. Table 1 sets out the anticipated benefits included in the consultation document for the proposed revenue standard. These benefits are common across both the public and not-

for-profit (NFP) sectors. For each of these benefits, Table 1 sets out the number of supportive comments. Overall, there is good support for the identified benefits. ***Note*** – *one comment may relate to more than one benefit*.

Table 1 – Support for the anticipated benefits of the proposed revenue standard

Anticipated benefit from the consultation document	Number of supportive comments	
	Public sector	**NFP**
Information transparency and higher quality financial reporting • The proposed standard enhances transparency regarding the substance of an entity's revenue transactions by introducing a more robust and objective approach to the recognition and measurement of revenue. • Inherently, accounting for revenue may require significant judgement, particularly in assessing the nature and timing of revenue recognition. The current revenue PBE Standards have led to inconsistencies due to the difficulty in distinguishing between exchange and non-exchange transactions and have constraints on deferring revenue. • The proposed standard provides a structured framework to support the application of judgement consistently and transparently, reducing variability in practice. Given the inherent judgement and current challenges, higher quality financial reporting in New Zealand would be achieved through adoption of this proposed standard.	**12** [#2, 9, 19, 21, 22, 24, 27, 32, 33, 36, 106, 107]	**7** [#8, 21, 27, 28, 88, 107,122]
Increased comparability • The proposed standard enhances comparability in financial reporting by providing a unified framework for recognising revenue across various types of arrangements. This ensures that PBEs operating in similar circumstances report revenue in a consistent manner. • The proposed standard also bridges gaps between sectors, enabling more meaningful benchmarking between public sector entities, NFP organisations and for-profit counterparts	**8** [#19, 22, 23, 25, 27, 26, 32, 95]	**4** [#20, 27, 95, 122]
Coherence • The core principles of the proposed standard are consistent with those of the proposed transfer expenses standard. • This coherence is further supported by alignment with the updated PBE Conceptual Framework and other PBE Standards.	**3** [#1, 19, 27]	**3** [#1, 27, 122]
International alignment • The proposed standard is based on IPSAS 47 and is closely aligned with the principles of NZ IFRS 15 *Revenue from Contracts with Customers,* particularly for transactions involving binding arrangements. This alignment with NZ IFRS 15 offers PBEs comprehensive guidance, global harmonisation, and enhances consistency in revenue reporting.	**5** [#19, 23, 27, 25, 30]	**5** [#8, 27, 31, 122]

Anticipated benefit from the consultation document	Number of supportive comments	
	Public sector	NFP
• Additionally, it supports workforce mobility by enabling professionals with NZ IFRS 15 experience to apply their expertise to PBE IPSAS 47. This common foundation across standards helps facilitate the movement of accounting professionals between sectors to strengthen high-quality financial reporting practices.		
Easier reporting for 'mixed groups' This alignment with NZ IFRS 15 also benefits PBEs with for-profit subsidiaries as it will likely require fewer accounting adjustments when preparing group financial statements.	**4** [#19, 25, 27, 33]	**2** [#27, 31]

8. One respondent made general comments relating to larger public sector and Tier 1 NFP entities – i.e. that the benefits are clearer for these entities as they have the resources in place to apply the proposed standard. (Comment #3 and #5).

9. Respondents noted the following additional benefits:

   (a) PBEs may gain a better understanding of their revenue transactions and associated arrangements. (Comment #27).

   (b) The new standard may improve contracting practices. We (the staff) note that this could be as a result of the fundamental principle of a binding arrangement, which may encourage clearer agreements between entities. This is echoed by another respondent who notes that the proposed standard should create more responsibility on the NFP entities and motivation to meet the requirements of the binding arrangement. (Comment #18, #122).

Analysis of the feedback challenging the identified benefits of the proposed revenue standard

10. There are 8 comments from 4 different respondents that challenge the benefits identified in the consultation document.

11. For the **public sector**, Table 2 sets out a summary of the feedback and our recommended actions in response.

Table 2 – Public sector challenges to the anticipated benefits of the proposed revenue standard and staff response

Comment ref and summary	Staff response and recommended action
#4 – For Tier 2 public sector entities, the benefits may be low.	The respondent made this comment in the context of the capability of these entities to implement these standards in comparison to larger entities that may have the necessary resources to do so. We note that the Board has already agreed to provide adoption and implementation support to address some of the feedback received on the challenges relating to the binding arrangement principle. We anticipate that further implementation support

Comment ref and summary	Staff response and recommended action
	will be considered as we continue to analyse the remaining feedback received on these consultations. ***To reassess in the final cost/benefit assessment at a future meeting***
#12 – There is a risk that the standard creates an appearance of precision that cannot be achieved reliably. Resulting balances may be more judgemental and subjective than current revenue and expense numbers, which may not be clearly understood by users. The respondent who raised this comment also questioned whether complicated requirements would be helpful to users overall.	Preparers are already required to disclose information about significant judgements and estimation uncertainties in the financial statements, which should mitigate the risk identified by the respondent. We also note that, as mentioned in the consultation documents, revenue recognition is inherently an area of judgement, and some of the respondents whose feedback is covered in Table 1 noted favourably that the proposed standards move away from the judgement currently involved in applying the current 'exchange vs non-exchange' revenue recognition model. Also, the feedback noted in Table 1 supports benefits such as higher quality financial reporting, which is beneficial to users. **Recommended action** **E** No further action required
#34 – We should question if international alignment is important and whether the PBE sector will benefit from it, as questions may arise as to why we are trying to fix something that is not broken.	Other feedback indicates support for international alignment (see Table 1). Feedback on the difficulties relating to the 'exchange / non-exchange' model also indicates that are problems with the current accounting that the new standard seeks to address. **Recommended action** **E** No further action required
#94 – Benefit do not outweigh the costs – however, neither cost nor benefit are expected to be significant in the long run.	We acknowledge this comment, noting that the cost/benefit conclusion will likely differ from entity to entity. The consultation documents accompanying the proposed standards reflected the Board's view that the expected long-term benefits of the proposed standard would outweigh the costs. As noted above, we will re-confirm this assessment once we have analysed all feedback received, considering the feedback in totality together with any agreed changes to the proposed standards and/or implementation support to address concerns about costs. ***To reassess in the final cost/benefit assessment at a future meeting***
#97 – It is difficult to articulate the benefits in the current economic climate, particularly where implementation may be complex. However, previous experience with PBE IPSAS 23 suggests that concerns may reduce over time once	We note the current economic climate and the challenges involved with implementation of major new accounting standards. As noted in the first row of this table, the Board has already agreed to provide adoption and implementation support to address some of the feedback received on the challenges relating to the binding arrangement principle. We anticipate that further implementation support will be considered as we continue to analyse the remaining feedback received on these consultations. As the respondent noted,

Comment ref and summary	Staff response and recommended action
stakeholders become familiar with the requirements.	once stakeholders become familiar with the new requirements then implementation challenges may ease over time. ***To reassess in the final cost/benefit assessment at a future meeting***
#129 – Talking to wholesale investors would be interesting to help provide insights on what information they really do value in financial statements.	We acknowledge the benefit of engaging with these stakeholders. We note that no wholesale investors provided feedback on the proposed standards during the consultation period. Nevertheless, we intend to explore the possibility of engaging with wholesale investors to see if they can provide us with any comments. This will particularly inform our analysis of the feedback received on the disclosure requirements in the proposed standard, to be presented to the Board at a future meeting. ***To address at a future meeting as part of the feedback analysis on the proposed disclosure requirements***
#153 – Councils have to prepare funding impact statements as part of their annual reports. The introduction of the new revenue standard will result in a different disclosure format, while the funding impact statement continues to present revenue in an alternative manner. This divergence will affect the consistency of figures reported across the two statements.	We acknowledge this comment. We will include this comment in the analysis that we will perform on all the feedback received on the disclosure requirements in the proposed standard. We will present recommended actions on that topic at a future meeting. ***To address at a future meeting as part of the feedback analysis on the proposed disclosure requirements***

12. For the **NFP sector**, one respondent noted that the benefits for Tier 2 NFPs may be low. As noted in the table above, the respondent made this comment in the context of the capability of these entities to implement these standards in comparison to larger entities that may have the necessary resources to do so. One of the themes identified from the feedback on cost relates to NFP capabilities and capacity. We consider appropriate responses to that feedback in agenda item 7.6.

    To reassess in the final cost/benefit assessment

Question for the Board:

Q1. Does the Board **AGREE** with the recommended actions in Table 2 and paragraph 12?

Overview of the feedback received on the proposed transfer expenses standard

13. We received 23 comments directly relating to the anticipated benefits of adopting the proposed transfer expenses standard. Of these comments:

    - 11 identify benefits of adopting the proposed standard.
    - The remaining 12 comments either counter the benefits that we identified in the consultation paper or note where the benefit may have been overstated or not applicable to certain sectors (i.e. "counter-benefits).

Stakeholder feedback relating to anticipated benefits of adopting the proposed transfer expenses standard				
Comments by sector				
	Public sector	**NFP**	**Both**	**Comment ref #**
Benefits	**7**	**3**	**1**	1-3, 5, 9-11, 17, 18, 89, 122
Counter-benefits	**5**	**2**	**5**	4, 6, 7, 12-16, 91, 92, 125, 129

Stakeholder feedback relating to anticipated benefits of adopting the proposed transfer expenses standard	
Respondent	**Number of comments**
IRD	1
Auckland Council	3
The Audit Office	1
CAANZ	5
Outreach feedback	11
Post-consultation follow-up with respondents	2
Total	**23**

Analysis of the feedback on the anticipated benefits of the proposed transfer expenses standard

14. Table 3 sets out the anticipated benefits included in the consultation document for the proposed transfer expenses standard. These benefits are common across both the public and not-for-profit (NFP) sectors. For each of these benefits, Table 3 sets out the number of supportive comments. Overall, there is some support for the identified benefits, particularly for the public sector. We did not receive many comments from the NFP sector. ***Note*** *– one comment may relate to more than one benefit.*

Table 3 – Support for the anticipated benefits of the proposed transfer expenses standard

Anticipated benefit from the consultation document	Number of supportive comments	
	Public sector	NFP
Fills the current gap in PBE Standards • There is currently no PBE Standard addressing the accounting for transfer expenses. This has led to diversity in practice across the public and not-for-profit sectors. • The ED will allow for increased consistency in the reporting of transfer expenses, using the latest international thinking.	**3** [#10, 11, 17]	None
Guidance on challenging accounting issues The ED contains guidance on how to apply the proposals to certain challenging issues currently experienced by PBEs – such as the impact of appropriations on the accounting for expenditure as well as the accounting for multi-year arrangements.	**1** [#11]	None
Consistency across the PBE sectors The ED is applicable to both public sector and NFP entities. Therefore, the proposed standard establishes a consistent framework for transfer expense recognition for all PBEs.	**1** [#89]	None
Coherence • The core principles of the ED are consistent with those of the proposed revenue standard. • This coherence is further supported by alignment with the updated PBE Conceptual Framework and other PBE Standards.	**3** [#1, 17, 89]	**2** [#1, 122]

15. One respondent noted that the benefits are clearer for larger public sector and Tier 1 NFP entities as they have the resources in place to apply the proposed standard. (Comment #3 and #5.).

16. Respondents noted the following additional benefits:

    (a) Similar to the proposed revenue standard, the new standard may improve contracting practices. Refer to paragraph 9 for further detail.

    (b) Higher quality financial reporting (note – these comments were also made with respect to the proposed revenue standard):

        i. Local council financial statements will be made more usable due to implementation of the EDs, which alludes to higher quality financial reporting. (Comment #2.).

        ii. Both EDs require judgements to be made relating to binding arrangement assessments. Making such judgements may help to reduce poor or contracting practices by encouraging clearer terms. (Comment #9.).

Analysis of the feedback challenging the identified benefits of the proposed transfer expenses standard

17. There are 12 comments from 4 different respondents that challenge the benefits identified in the consultation document.

18. For the **public sector**, Table 4 sets out a summary of the feedback and our recommended actions in response.

Table 4 – Public sector challenges to the anticipated benefits of the proposed transfer expenses standard

Comment ref and summary	Staff response and recommended action
#4 – For Tier 2 public sector entities, the benefits may be low.	This is the same comment made with respect to the proposed revenue standard (see Table 2 on page 4 for further detail). ***To reassess in the final cost/benefit assessment at a future meeting***
#12 – There is a risk that the standard creates an appearance of precision that cannot be achieved reliably. Resulting balances may be more judgemental and subjective than current revenue and expense numbers, which may not be clearly understood by users. The same respondent questioned whether complicated requirements would be helpful to users overall.	This is the same comment made with respect to the proposed revenue standard (see Table 2 on page 5 for further detail). **Recommended action** **E** No further action required
#13 – While there is currently no PBE Standard addressing the accounting for transfer expenses, there does not appear to be widespread demand for such a standard. We understand there is some divergence in practice in the public sector, but this appears to be largely limited to social benefit transactions.	We note that this is the only comment we received that questions the need for a transfer expenses standard for the public sector. This is in comparison to the three comments in support of a transfer expenses standard – see Table 3. Those comments indicate a wider application of the proposed standard, to transactions beyond those relating to social benefits. **Recommended action** **E** No further action required
#14 – The ED allows for the deferral of expenses for transactions with binding arrangements, which may be a desirable accounting outcome for certain entities and therefore is considered a benefit. However, we are concerned that the ED could influence how transactions happen, e.g. designed to achieve a preferred accounting outcome, which is not the	Further discussion with the respondent indicated that the key concern here is with the application of paragraph AG39 in the ED, which relates to estimating the transfer recipient's progress towards satisfying obligations in a binding arrangement. We address this concern in agenda item 7.5, as part of our analysis of the feedback received on paragraph AG39. ***Addressed in agenda item 7.5***

Comment ref and summary	Staff response and recommended action
purpose or objective of accounting standards. The respondent also noted the potential impact on multi-funding arrangements. Arrangements with a term shorter than one year would avoid judgements on whether the recipient still needs to perform under the arrangement at year-end (i.e. a judgement on whether there is a transfer right asset at year-end). Multi-year funding arrangements may therefore decrease.	
#15 – It is not imperative that there is a consistent framework for transfer expense recognition for all PBEs. We do not foresee any major issues if the ED were applicable for public sectors entities prior to it being adopted for NFPs in New Zealand to allow time for more comprehensive field testing to be conducted for this sector.	We acknowledge this comment, although we still think consistency is useful where comparable transactions occur across the PBE sectors, particularly for users that provide funding to both public sector PBEs and NFP PBEs. While we have not yet found any willing NFP participants for field testing, we acknowledge the potential for considering various transition options for each sector. We will explore these options at a future meeting. ***To address at a future meeting as part of the feedback analysis on transition options***
#16 – While the core principles of the ED are consistent with those of the proposed revenue standard, there are differences in terminology. For example, the proposed revenue standard uses the terms resource recipient and resource provider (noting that the term "resource recipient" is not defined). These are similar, but not identical, to those used in the proposed transfer expenses standard, which are transfer recipient and transfer provider. The distinction between the terminologies is unclear and could be confusing given the two EDs are essentially referring to the same parties.	We acknowledge this comment. One of the themes identified from the feedback on cost relates to terminology concerns. We consider appropriate responses to that feedback in agenda item 7.6. ***Addressed in agenda item 7.6***
#91 – The benefits may not clearly outweigh the implementation and operational costs.	We acknowledge this comment, noting that the cost/benefit conclusion will likely differ from entity to entity. As noted in Table 2 on page 5, the consultation documents accompanying the proposed standards reflected the Board's view that the expected long-term benefits of the proposed standard would outweigh the costs. We will re-confirm this assessment once we have analysed all feedback received, considering the

Comment ref and summary	Staff response and recommended action
	feedback in totality together with any agreed changes to the proposed standards and/or implementation support to address concerns about costs. ***To reassess in the final cost/benefit assessment at a future meeting***
#92 – Overall, user needs appear to be met by information currently provided. It is unclear if the proposed PBE IPSAS 48 would improve the information provided to users of PBE financial reports or promote higher quality financial reporting by PBEs in New Zealand. Feedback from our stakeholders is that it is not clear that the ED would better meet the needs of PBE user groups as a whole. Therefore, it is not clear that the benefits of adopting PBE IPSAS 48 would outweigh the costs.	We acknowledge this comment. However, other feedback received indicates that the proposed standard could improve financial reporting (see Table 3) which would benefit users. ***To reassess in the final cost/benefit assessment at a future meeting***
#125 – It is difficult to articulate the benefits in the current economic climate, particularly where implementation may be complex.	This is a similar comment to one that was received on proposed revenue standard (see comment #97 in Table 2 on page 5 for further detail). ***To reassess in the final cost/benefit assessment at a future meeting***
#129 – Talking to wholesale investors would be interesting to help provide insights on what information they really do value in financial statements.	This is the same comment made with respect to the proposed revenue standard (see Table 2 on page 5 for further detail). ***To address at a future meeting as part of the feedback analysis on the proposed disclosure requirements***

Question for the Board:

Q2. Does the Board **AGREE** with the recommended actions in Table 4?

19. For the **NFP sector,** Table 5 sets out a summary of the feedback and our recommended actions in response.

Table 5 – NFP challenges to the anticipated benefits of the proposed transfer expenses standard

Comment ref and summary	Staff response and recommended action
#6 – For Tier 2 NFPs, the benefits may be low.	This is the same comment made with respect to the proposed revenue standard (see paragraph 12 for further detail).

Comment ref and summary	Staff response and recommended action
	To reassess in the final cost/benefit assessment at a future meeting
#7 – Agree that there is a gap – what is not so clear is the evidence around the need to fill the gap. Is there a problem that needs to be solved? **#13** – While there is currently no PBE Standard addressing the accounting for transfer expenses, there does not appear to be widespread demand for such a standard. We understand there is some divergence in practice in the public sector, but this appears to be largely limited to social benefit transactions.	These two comments are addressed together as they come from the same respondent. We acknowledge these comments and note that we did not receive any comments in support of filling the gap in PBE Standards for NFP entities. While we maintain that the benefits identified in the consultation document apply to NFP entities as well as public sector entities, we are also aware of resource constraints in the NFP sector which could cause the costs of adoption to outweigh these benefits. We note that the Board has already agreed to provide adoption and implementation support to address some of the feedback received on the challenges relating to the binding arrangement principle. We anticipate that further implementation support will be considered as we continue to analyse the remaining feedback received on these consultations. Agenda items 7.4 – 7.6 provide analyses on the costs identified by respondents in the NFP sector. ***To reassess in the final cost/benefit assessment at a future meeting***
#14 – The ED allows for the deferral of expenses for transactions with binding arrangements, which may be a desirable accounting outcome for certain entities and therefore is considered a benefit. However, we are concerned that the ED could influence how transactions happen, e.g. designed to achieve a preferred accounting outcome, which is not the purpose or objective of accounting standards. The respondent also noted the potential impact on multi-funding arrangements. Arrangements with a term shorter than one year would avoid judgements on whether the recipient still needs to perform under the arrangement at year-end (i.e. a judgement on whether there is a transfer right asset at year-end). Multi-year funding arrangements may therefore decrease.	This is the same comment made with respect to the proposed revenue standard (see Table 4 on page 9 for further detail). ***Addressed in agenda item 7.5***
#15 – It is not imperative that there is a consistent framework for transfer expense recognition for all PBEs. We do not foresee any major issues if the ED were applicable for public sectors entities prior to it being adopted for NFPs in New Zealand to allow	This is the same comment made with respect to the proposed revenue standard (see Table 4 on page 10 for further detail). ***To address at a future meeting as part of the feedback analysis on transition options***

Comment ref and summary	Staff response and recommended action
time for more comprehensive field testing to be conducted for this sector.	
#16 – While the core principles of the ED are consistent with those of the proposed revenue standard, there are differences in terminology. For example, the proposed revenue standard uses the terms resource recipient and resource provider (noting that the term "resource recipient" is not defined). These are similar, but not identical, to those used in the proposed transfer expenses standard, which are transfer recipient and transfer provider. The distinction between the terminologies is unclear and could be confusing given the two EDs are essentially referring to the same parties.	This is the same comment made with respect to the proposed revenue standard (see Table 4 on page 10 for further detail). ***Addressed in agenda item 7.6***
#92 – Overall, user needs appear to be met by information currently provided. It is unclear if the proposed PBE IPSAS 48 would improve the information provided to users of PBE financial reports or promote higher quality financial reporting by PBEs in New Zealand. Feedback from our stakeholders is that it is not clear that the ED would better meet the needs of PBE user groups as a whole. Therefore, it is not clear that the benefits of adopting PBE IPSAS 48 would outweigh the costs.	We acknowledge this comment. Our response is similar to comment #7 and #13 (in the second row of this table). ***To reassess in the final cost/benefit assessment at a future meeting***

Question for the Board:

Q3. Does the Board have any other comments or feedback on the analysis in this agenda item?

Next steps

20. We have now concluded our assessment of most of the feedback relating to the benefits of adopting the proposed standards. As noted in this memo, some of the feedback – particularly on challenges raised on the anticipated benefits included in the consultation documents – will be addressed as part of the final benefits vs costs assessment.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Revenue and Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue and Transfer Expenses: Analysis of stakeholder feedback on high volume, low value transactions**
Date:	11 November 2026
Prepared by:	Carly Berry and Leana van Heerden
Through:	Gali Slyuzberg; Nimash Bhikha; Michelle Lombaard

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

Purpose[1]

1. In this agenda item, we discuss the feedback received from respondents on the costs associated with assessing high volumes of revenue or transfer expense transactions (which may be of low value) to determine whether they are with or without binding arrangements.

2. This feedback has been identified as a common theme for both ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standards') (see agenda item 7.2). Given the binding arrangements principles are consistent across both proposed standards, this feedback should be addressed consistently across both of them.

3. For the purposes of this memo, a 'binding arrangement assessment' is the action taken by an entity to determine whether and when an agreement with a resource provider / transfer recipient creates enforceable rights and obligations.

4. Agenda item 7.7 (Board-only paper) sets out the detailed comments received from respondents on this matter. We have given each comment a unique number so that the Board can refer to that agenda item as necessary.

Recommendations

5. We recommend that the Board **AGREES** with the following actions to respond to the stakeholder feedback on the costs of performing binding arrangement assessments for high volume, low value transactions:

   (a) Develop authoritative guidance which discusses the circumstances where a detailed binding arrangement assessment is likely not required (**Option D**).

[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).

(b) Provide adoption and implementation support (**Option E**) with respect to the application of:

(i) materiality; and

(ii) similar enforcement mechanisms across arrangements.

Structure of this agenda item

6. This memo includes the following sections:

(a) Stakeholder feedback and possible options to address the feedback

(b) Option A: Low value threshold for binding arrangement assessments

(c) Option B: Exemption where the costs to perform the binding arrangement assessment outweigh the benefits

(d) Option C: Rebuttable presumption that specified categories of transactions are without binding arrangements

(e) Option D: Authoritative guidance specifying that detailed binding arrangement assessments may not be necessary

(f) Option E: Adoption and implementation support

(g) Next steps

Stakeholder feedback and possible options to address the feedback

Feedback received relating to high volume, low value arrangements

7. Accounting for revenue and transfer expenses under the proposed standards requires an entity to assess first whether an arrangement is binding or not. We received 12 comments from respondents relating to the costs and challenges associated with performing this assessment on high volumes of arrangements, some of which may be low in value. In summary, we heard that:

(a) Reviewing all arrangements would be time-consuming and costly, resulting in significant implementation – and ongoing – effort. This effort might not improve the benefits from the perspective of a user of the financial statements.

(b) Assessing a large number of arrangements could place pressure on existing systems and processes. For example, finance staff may find it difficult to access the information required to assess all arrangements, as this information would sit in different areas of an organisation. Keeping track of the assets and liabilities arising from the arrangements may also present a challenge to existing systems and processes.

(c) Smaller agreements (i.e. low in value) would not have regular reporting and monitoring, compared to higher-value arrangements. Not-for-profits (NFPs) in particular may have large numbers of donations to consider, some of them low in value.

(d) Terms and conditions of grants are mostly unique. The nature of revenue streams can be diverse in both the public and NFP sectors, with lower value contracts with

bespoke terms identified in the NFP sector. (We also note that another respondent mentioned that larger-value transactions are more likely to be bespoke.).

8. Further information on these 12 comments can be found in the following tables.

Stakeholder feedback relating to high volume, low value transactions Comments by sector and proposed standard			
	Public sector	**Not-for-profit**	**Both**
Revenue	**1 comment**	**3 comments**	**2 comments**
Comment ref #	74	79, 116, 126	76, 99
Transfer expenses	**1 comment**	**None**	**1 comment**
Comment ref #	44	-	100
Both	**1 comment**	**None**	**3 comments**
Comment ref #	112	-	54, 56, 115

Stakeholder feedback relating to high volume, low value transactions **Respondent**	**Number of comments**
Auckland Council	**2**
CAANZ	**1**
Greater Wellington Regional Council	**1**
Outreach feedback	**6**
Post-consultation follow-up with respondents	**2**
Total	**12**

Other relevant feedback to consider in the analysis

9. From our analysis of the feedback on the binding arrangement principle (discussed with the Board in April and June 2026) we are aware that:

   (a) NFP entities (in particular, Tier 2 NFP entities) may struggle to apply the requirements in the proposed standards to determine whether a binding arrangement exists.

   (b) stakeholders would welcome more examples to help them apply the requirements in the proposed standards. This feedback goes beyond the binding arrangement feedback and applies to other aspects of the proposed standards. However, we do note that one of the 12 comments analysed in this agenda item suggests that guidance and lots of examples with different types of revenue would help in assessing a large number of arrangements.

10. We have kept this feedback in mind when identifying and analysing possible actions to address the feedback relating to high volume, low value transactions.

Examples of common types of transactions which are often high in volume and low in value

11. From our discussions with stakeholders at outreach events and our own research, we have identified examples of the types of transactions which can be high in volume and low in value:

    Revenue

    (a) Certain fines paid to councils (e.g. parking tickets) and entry fees to council-run venues (such as museums).

    (b) Cash donations from the public (including street collections) and other general fundraising receipts (such as raffles) where there are no enforceable terms.

    (c) Donated goods in-kind, particularly high-volume, low-value goods donated for resale or distribution.

    (d) Services in-kind that are received without a written agreement or other evidence of enforceable rights and obligations.

    Transfer expenses

    (e) Routine transfers to individuals, such as scholarships or prizes, where there are no enforceable service or performance obligations.

Identifying possible actions to respond to the feedback

Objective of our response to the feedback

12. The objective of any action we take to respond to the feedback noted in paragraph 7 of this memo would be ***to mitigate the costs associated with performing the binding arrangement assessment on a high volume of arrangements (some of which may be low in value) while taking into account the information needs of users of financial statements.***

13. We consider the binding arrangement principle to be conceptually sound and appropriate for the proposed standards, as supported by the feedback received on the binding arrangement principle (as discussed by the Board in the April 2026 meeting). We do not intend to change the nature of the binding arrangement principle but rather ensure that the costs of its application (as identified through stakeholder feedback) are appropriately balanced with the benefits to users.

Consideration of existing cost relief within the proposed standards

14. Before identifying possible actions, we considered whether the proposed standards already contain requirements and guidance which could provide cost relief to entities when assessing large volumes of arrangements.

15. We note that the proposed standards contain a practical expedient to apply the requirements to a portfolio of binding arrangements or transfers (referred to as the 'portfolio practical expedient' in this memo).

Revenue (paragraph AG11)	Transfer expenses (paragraph AG10)
This Standard specifies the accounting for an individual binding arrangement. However, as a practical expedient, an entity may apply this Standard to a **portfolio of binding arrangements (or compliance obligations) with similar characteristics** if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.	This Standard specifies the accounting for an individual transfer. However, as a practical expedient, an entity may apply this Standard to **a portfolio of transfers with similar characteristics** if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual transfers within that portfolio. Transfers without binding arrangements and transfers with binding arrangements do not have similar characteristics and are not accounted for in the same portfolio. When accounting for a portfolio, an entity shall use estimates and assumptions that reflect the size and composition of the portfolio.

16. This practical expedient should help to ease the implementation and ongoing costs associated with accounting for high volumes of transactions with similar characteristics. Entities will need to use their judgement to determine whether their arrangements have similar characteristics and evaluate whether the effects of applying the requirements to individual arrangements or the portfolio of arrangements would not differ materially. We acknowledge that the level of effort required to do this will differ from entity to entity, based on the information they have available across their individual arrangements.

17. To use the practical expedient, an entity would still be required to perform an assessment of whether an arrangement is binding, because:

    (a) in the proposed revenue standard, the practical expedient only applies to binding arrangements.

    (b) in the proposed transfer expenses standard, the practical expedient explicitly states that transfers without binding arrangements and transfers with binding arrangements are not accounted for in the same portfolio.

18. As such, while this practical expedient will help entities apply the recognition and measurement requirements of the proposed standards to a portfolio of transactions, which will reduce some ongoing costs, the practical expedient does not reduce the burden of having to perform a binding arrangement assessment for each individual transaction.

19. As a separate matter, we will consider whether the scope of the practical expedient, as noted in paragraph 17(a) above, should be widened so that it is available to **all** revenue transactions (i.e. both binding and non-binding arrangements). We will present our analysis and recommended action on this matter to the Board at a future meeting.

20. We have not identified any other cost relief within the proposed standards that would assist with the concerns raised in the stakeholder feedback.

Identification of possible actions

21. We have considered existing cost mitigation provisions in other PBE Standards and have identified five options for addressing the feedback, which are listed in Table 1 below.

Table 1 – Options to address the feedback on high volume, low value transactions

Ref	Option	Action type	Possible action	Conclusion
A	Low value threshold for binding arrangement assessments	Standard setting	Develop an optional exemption for those transactions which are 'low value' – such an exemption would take one of the following forms: • Specify a quantitative threshold. • Develop authoritative guidance to help entities assess whether an arrangement is low value for the purposes of applying the exemption.	**Not recommended**
B	Exemption where the costs to perform the binding arrangement assessment outweigh the benefits	Standard setting	Develop an optional exemption for those transactions where the entity determines that it is not practicable to perform the binding arrangement assessment because the costs to do so outweigh the benefits.	**Not recommended**
C	Rebuttable presumption that specified categories of transactions are without binding arrangements	Standard setting	Develop a rebuttable presumption that specified categories of transactions are transactions without binding arrangements.	**Not recommended**
D	Authoritative guidance specifying that detailed binding arrangement assessments may not be necessary	Standard setting	Develop authoritative guidance which discusses the circumstances where a detailed binding arrangement assessment is likely not required	**Recommended**
E	Adoption and implementation support	Adoption and implementation support	Provide adoption and implementation support relating to the application of: • materiality; and • similar enforcement mechanisms across arrangements	**Recommended**

22. The rest of this memo contains analyses for each of these options, which include (as applicable):

(a) The rationale for considering the option

(b) Precedent for the option in existing accounting standards

(c) Indicative text to include in the proposed standard

(d) Advantages and disadvantages of the option

(e) Conclusion on whether to recommend the option to address the feedback

Option A: Low value threshold for binding arrangement assessments

Rationale for considering this option

23. An optional low-value exemption could help to mitigate the costs associated with performing binding arrangement assessments by allowing entities to forego the assessment on certain qualifying transactions. These transactions would be deemed to be without a binding arrangement. This option is intended to target transactions where the expected information benefit to users is unlikely to justify the cost incurred by reporting entities of performing the binding arrangement assessment.

Precedent in existing accounting standards

24. In the for-profit suite of standards, NZ IFRS 16 *Leases* contains a low-value asset exemption, which allows lessees not to apply the right-of-use model to leases of low-value assets. Paragraphs 5-6 of NZ IFRS 16 state that:

    A lessee may elect not to apply the requirements in paragraphs 22–49 to: (a) short-term leases; and (b) leases for which the underlying asset is of low value (as described in paragraphs B3–B8). If a lessee elects not to apply the requirements in paragraphs 22–49 to either short-term leases or leases for which the underlying asset is of low value, the lessee shall recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis. The lessee shall apply another systematic basis if that basis is more representative of the pattern of the lessee's benefit."

25. NZ IFRS 16 does not specify a quantitative threshold within the authoritative guidance – instead, paragraphs B3–B8 of NZ IFRS 16 provides guidance on how an entity assesses whether an underlying asset is of low value. This includes a requirement to consider the asset's value when it is new on an absolute basis, and examples of typical low-value underlying assets. In the Basis for Conclusions (BC) paragraph BC100, the IASB notes that it had in mind leases of underlying assets with a value, when new, in the order of magnitude of US$5,000 or less (for the purposes of the exemption). The practical implication of this BC paragraph is that in many instances this monetary value is used as the determined value.

26. While the exemption in NZ IFRS 16 applies in a for-profit leasing context and is not directly analogous to a binding arrangement assessment, it provides a useful precedent for designing a low-value exemption that is based on authoritative guidance rather than a fixed monetary threshold. A similar exemption exists within IPSAS 43 *Leases* (which has not been incorporated into the PBE Standards yet), but we note that the Basis for Conclusions for IPSAS 43 does not include an IPSASB consideration of a quantitative threshold.

Developing the indicative wording for the authoritative guidance

Consideration of a quantitative threshold

27. We considered two possible ways to design a low-value exemption. The first would be to specify a quantitative threshold. This approach would be simple to understand and apply and would provide a clear boundary for entities and auditors. However, we do not consider that setting a quantitative threshold is an appropriate basis for the exemption, for the following reasons:

    (a) Setting a quantitative threshold would require the Board to determine a single monetary amount that is appropriate across the public sector and NFP sectors, and across entities of different sizes, activities and operating environments. We do not think such an amount could be set on a sufficiently principled basis, particularly for fundamentally common and wide-ranging transactions like revenue and transfer expenses.

    (b) A "hardcoded" threshold may become less appropriate over time due to inflation or changes in the economic environment and require regular standard setting to ensure it remains fit-for-purpose and practical.

    (c) A fixed threshold could create behavioural risks if arrangements are structured to fall below the threshold, or if transactions below the threshold are treated as immaterial without appropriate consideration of their nature and collective effect.

Consideration of authoritative guidance for the purposes of applying the exemption

28. The second approach would be to develop authoritative guidance to help entities assess whether an arrangement is low value for the purposes of applying the exemption. This would be more consistent with the approach in NZ IFRS 16 and would avoid setting a single monetary amount that may not remain appropriate over time.

29. We have developed the following indicative wording (based on the wording in paragraphs 5-8 and B4 of NZ IFRS 16):

> *An entity may elect not to undertake an assessment of whether a transaction is with a binding arrangement if the transaction is of low value. In such circumstances, the entity may account for the transaction as a transaction without a binding arrangement. The election for transactions that are of low value can be made on a transaction-by-transaction basis.*
>
> *For the purposes of applying this exemption, an entity shall assess whether a transaction is of low value on an absolute basis. The assessment is not affected by the size, nature or circumstances of the entity. Accordingly, different entities are expected to reach the same conclusions about whether a particular transaction is of low value.*

Advantages and disadvantages of Option A

30. The table below sets out the advantages and disadvantages of Option A as a possible action. Note, since we established the inappropriateness of developing a quantitative threshold in paragraph 27 of this memo, this table only addresses the advantages and

disadvantages of developing authoritative guidance, as detailed in paragraphs 28-29 above.

Advantages	Disadvantages
Could provide targeted cost relief for transactions where the expected information benefit to users is unlikely to justify the cost of performing the binding arrangement assessment.	Replaces one form of judgement (i.e. assessing whether an arrangement is binding) with another (i.e. assessing whether a transaction is 'low value').
Would respond directly to stakeholder feedback about the cost of assessing high volumes of low value arrangements.	Could result in transactions with substantive enforceable rights and obligations being accounted for as transactions without binding arrangements solely because they are individually 'low value'. Introduces the concept of 'low value' in relation to revenue and transfer expense transactions – this may cause confusion about how this concept interacts with the concept of materiality.

Conclusion on Option A

31. We consider that the disadvantages of this option outweigh the advantages – in particular, because the costs involved in performing a binding arrangement assessment are unlikely to be sufficiently mitigated due to the judgement involved in determining whether a transaction is 'low value', as well as the wider diversity which may arise from making judgements relating to low value. We do not recommend Option A as an action to address the stakeholder feedback.

Question for the Board:

Q1. Does the Board **AGREE** with our conclusion on Option A?

Option B: Exemption where the costs to perform the binding arrangement assessment outweigh the benefits

Rationale for considering this option

32. Based on stakeholder feedback, some entities – in particular, Tier 2 NFP entities – may struggle to assess whether a transaction is with a binding arrangement or not. For some entities, this could be due to a lack of resources and accounting expertise.

33. An exemption which allows entities to conclude that performing the assessment on a particular arrangement (or group of arrangements) is not practicable – because the costs to do so outweigh the benefits – could help to prevent undue cost and effort for these

entities. We expect that such an exemption would specifically help with the cost of assessing a high volume of low value arrangements.

Precedent in existing accounting standards

34. PBE IPSAS 23 *Revenue from Non-exchange Transactions* contains an exemption that we will refer to in this memo as the 'donated inventory exemption'. Paragraph 97.1 of PBE IPSAS 23 states that:

    "... an entity may elect not to recognise goods in-kind that meet the definition of inventories in PBE IPSAS 12 Inventories ***, if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits.*** *This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue."*

35. This donated inventory exemption is included, substantively unchanged, in the proposed revenue standard (paragraph AG166.1).

Developing an optional exemption substantively similar to the donated inventory exemption

36. We considered how the exemption in paragraph 97.1 of PBE IPSAS 23 could be adapted to apply to a binding arrangement assessment. We have developed the following indicative wording:

> *An entity may elect not to undertake an assessment of whether a transaction is with a binding arrangement, when it is not practicable to do so because the costs of obtaining and evaluating the necessary evidence would outweigh the benefits. This will often be the case where an entity enters into a high volume of arrangements that are individually low in value. In such circumstances, the entity may account for the arrangement as a transaction without a binding arrangement.*

Advantages and disadvantages of Option B

37. The table below sets out the advantages and disadvantages of Option B as a possible action.

Advantages	Disadvantages
Allows an entity to forego a binding arrangement assessment where it determines it is not practicable to perform such an assessment for cost/benefit reasons.	Replaces one form of judgement (i.e. assessing whether an arrangement is binding) with another (i.e. assessing whether the costs to perform the assessment outweigh the benefits).
Is based on an existing exemption in PBE IPSAS 23 (the donated inventory	Audit challenges may arise if entities cannot support their justification for using

assessment) which may be familiar to some entities and auditors.	the exemption and may result in additional unanticipated costs.

38. The disadvantages identified in the table above indicates that Option B may not ultimately meet the objective of mitigating the costs of performing a binding arrangement assessment. However, if entities are comfortable with applying the donated inventory exemption in practice – and auditors are comfortable with entities' assessments – then the cost/benefit judgement required by Option B may not be unduly onerous.

39. To gain an understanding of the current use of the donated inventory exemption in practice (and any associated assurance challenges), we consulted with members of the Accounting Technical Reference Group (TRG) and PBE Working Group to obtain their views. Feedback from some of these members indicated that:

    (a) The exemption is often used by PBEs that have op-shops and other activities where they receive donated goods for either sale or distribution. Judgement is involved in determining which goods are 'high value' and therefore outside the scope of the exemption (but most of these goods are considered to be low in value).

    (b) From an assurance perspective – depending on the entity, materiality can be a factor where sometimes this activity is unlikely to be material (where it's a small part of the operation) or sometimes it would be material. However, donated goods are generally low in value and not typically a significant focus area.

    (c) In some circumstances, the quantum of donated goods is so high and the nature of those goods so diverse that it is clear a reliable fair value cannot be obtained. In fact, some auditors note that recognising low value donated items at fair value could inflate the asset balances or obscure the financial statements, potentially making them less meaningful for users.

    (d) An entity not having enough resources is not typically used as a justification for using the exemption. In theory, entities could outsource the resources if they do not have enough internal resources.

40. Based on the feedback noted in paragraph 39 above, it appears that the donated inventory exemption is often used by some of those entities who would likely benefit from Option B in relation to revenue and transfer expenses transactions (i.e. NFP entities). No particular assurance difficulties have been identified in the above feedback either, which indicates such an exemption is practically achieving its purpose.

41. However, we note that the costs contemplated under the donated inventory exemption mostly relate to external costs or costs of obtaining external information – e.g. the costs involved with engaging an independent valuer or obtaining price information published by sellers of similar goods. Also, the exemption is applicable to a very specific subset asset balance (donated inventory) which may not be prevalent across many PBEs.

42. In contrast, the costs involved with a binding arrangement assessment are more likely to be internal costs – e.g. time involved to perform the assessments and a potential lack of accounting expertise (and lack of resources to outsource the assessments). Option B

would also apply to revenue and transfer expenses, which are common and prevalent transactions across all PBEs.

43. From the feedback noted above, a lack of internal resources has not been used as a justification for using the donated inventory exemption and it may be difficult for an entity to use such a justification to avoid performing a binding arrangement assessment under Option B. Therefore, it is unclear whether Option B would ultimately be less costly to perform compared to a binding arrangement assessment.

Conclusion on Option B

44. We consider that the disadvantages of this option will likely outweigh the advantages, for the reasons noted above. We do not recommend Option B as an action to address the stakeholder feedback.

Question for the Board:

Q2. Does the Board **AGREE** with our conclusion on Option B?

Option C: Rebuttable presumption that specified categories of transactions are without binding arrangements

Rationale for considering this option

45. A rebuttable presumption could provide a more targeted form of cost relief than a broad exemption. This option would identify specified categories of transactions that are ordinarily expected to be transactions without binding arrangements. The presumption would provide entities with a practical starting point for those categories, while preserving the underlying binding arrangement principle. This is because the presumption would be rebutted when the terms of the transaction, applicable legislation, customary practices or other available evidence indicate that enforceable rights and obligations exist.

46. This option could be particularly useful for NFP entities that receive large volumes of donations, fundraising receipts, gifts in-kind or services in-kind, and for public sector or NFP entities that make routine low-value transfers to individuals. These transactions are often informal, standardised, individually low in value, or involve little negotiation or documentation. In many cases, it is unlikely that enforceable rights and obligations exist.

Precedent in existing accounting standards

47. There is precedent in NZ IFRS and PBE Standards for using rebuttable presumptions to simplify application of requirements, promote consistency and reduce the range of judgements that entities need to make. For example, paragraph 83 of PBE IPSAS 41 includes a rebuttable presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. That presumption may be rebutted if the entity has reasonable and supportable information, available without undue cost or effort, that demonstrates credit risk has not increased significantly.

48. Other PBE Standards also contain rebuttable presumptions. Examples include:

- Paragraph 11 of PBE IPSAS 36 *Investments in Associates and Joint Ventures* (rebuttable presumption that holding > 20% voting power in an investee means significant influence).
- Paragraph 51C of PBE IAS 12 *Income Taxes* (rebuttable presumption that the carrying amount of an investment property will be recovered through sale).

Developing the indicative wording for the authoritative guidance

49. We considered whether the rebuttable presumption should apply broadly to all high volume, low value transactions, or only to specified categories of transactions. We do not consider that it would be appropriate to apply the presumption to all high volume, low value transactions. The fact that transactions are high in volume or individually low in value does not, in itself, mean that they are unlikely to involve enforceable rights and obligations. Some low value transactions may still contain substantive enforceable terms, particularly where standard terms are used or where legislation creates enforceable rights or obligations.

50. We therefore consider that the presumption should be limited to specified categories of transactions that are ordinarily expected to be transactions without binding arrangements. These could include, for example, cash donations from the public, general fundraising receipts, donated goods in-kind, services in-kind received without a written agreement or other evidence of enforceable rights and obligations, and routine transfers to individuals where there are no enforceable service or performance obligations.

51. The categories would need to be described carefully to avoid implying that all transactions of that type are automatically without binding arrangements. We have developed the following indicative wording:

> *There is a rebuttable presumption that the following specified classes of revenue and transfer expense transactions are transactions without a binding arrangement:*
>
> - *Cash donations from the public, including street collections and collection boxes;*
> - *General fundraising receipts, such as raffles, appeals, fundraising events and campaigns, where there are no enforceable terms;*
> - *Donated goods in-kind received for resale or distribution; and*
> - *Routine transfers to individuals, such as scholarships, prizes or emergency assistance, where there are no enforceable service or performance obligations.*
>
> *An entity can rebut this presumption if the terms of the transaction, applicable legislation, customary practices or other available evidence indicate that enforceable rights and obligations exist.*

Advantages and disadvantages of Option C

52. The table below sets out the advantages and disadvantages of Option C as a possible action.

Advantages	Disadvantages
Provides a practical starting point for specified categories of transactions that are commonly high in volume, individually low value or unlikely to create enforceable rights and obligations.	Requires careful drafting of the specified transaction categories to avoid the presumption being applied too broadly.
More targeted than a broad cost-benefit exemption, because it focuses on specific transaction types, meaning that there would be less inconsistency in how the general principles of the standards are applied, compared to broader-based exemptions.	Effectively retains the need to perform a binding arrangement assessment because entities would need to assess whether the presumption is rebutted.
Preserves the binding arrangement principle because the presumption is rebutted when the facts and circumstances indicate that enforceable rights and obligations exist.	Introduces rebuttable presumptions into the proposals which may be applied inconsistently and result in additional unanticipated costs in evaluating when the presumption is applicable.
Could be particularly helpful for NFP entities that receive large volumes of donations, fundraising receipts, gifts in-kind or services in-kind.	
May be easier to operationalise than a cost-benefit exemption because entities would not need to demonstrate that the costs of performing the assessment outweigh the benefits.	

Conclusion on Option C

53. We consider that the disadvantages of this option outweigh the advantages. In particular, this is because the costs involved in performing a binding arrangement assessment remain, due to the need to assess whether the presumption should be rebutted. As such, this would not result in a meaningful reduction in implementation costs. We do not recommend Option C as an action to address the stakeholder feedback.

Question for the Board:

Q3. Does the Board **AGREE** with our conclusion on Option C?

Option D: Authoritative guidance specifying that detailed binding arrangement assessments may not be necessary

Rationale for considering this option

54. There may be circumstances where a detailed binding arrangement assessment may not be required. This could be the case where it is evident that a transaction does not have a binding arrangement based on the nature of the transaction and how it was entered into.

55. Authoritative guidance that explicitly states that a detailed assessment may not be required – along with examples of relevant circumstances – could help to reduce the costs associated with performing binding arrangement assessments. We expect that such guidance would specifically help with the cost of assessing a high volume of arrangements (which may or may not be low in value).

Precedent in existing accounting standards

56. There is precedent within NZ IFRS for explicitly stating that a detailed assessment may not be required for a particular judgement. Paragraph 26 of NZ IAS 1 *Presentation of Financial Statements* states that:

> *"...When an entity has a history of profitable operations and ready access to financial resources, the entity may reach a conclusion that the going concern basis of accounting is appropriate* ***without detailed analysis****. In other cases, management* ***may need to consider a wide range of factors*** *relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate."*

Developing the indicative wording for the authoritative guidance

57. We considered how the requirements in paragraph 26 of NZ IAS 1 could be adapted to apply to a binding arrangement assessment. In particular, we considered:

    (a) the extent to which the authoritative guidance should remain principles-based; and

    (b) the circumstances to which a detailed assessment may not be applicable.

Extent to which the authoritative guidance should remain principles-based

58. We considered whether it was appropriate for the authoritative guidance to either:

    (a) Describe the principle only – i.e. that a detailed binding arrangement assessment may not be required under certain circumstances;

    (b) Describe the principle and provide an exhaustive list of circumstances to which it will apply; or

    (c) Describe the principle and provide examples of the circumstances to which it is likely to apply.

59. We consider that (c) would be the most appropriate option, as this would provide for a reasonable balance between maintaining the principles-based nature of PBE Standards and being as helpful as possible. From our analysis of the feedback on the proposed standards to date, we are aware that stakeholders find examples useful. However, we do

not think it would be practical to list every circumstance to which the principle would apply, and we would want to encourage entities to use their judgement to apply this to their own facts and circumstances.

Circumstances to which a detailed assessment may not be applicable

60. In developing examples of circumstances to which a detailed assessment may not be applicable, we considered those types of transactions where it is likely to be obvious that there is no binding arrangement.

    (a) One example is where the entity has little or no interaction with the other party. Having no interaction implies that there has been no discussion, negotiation or agreement on terms and conditions – which means it is unlikely that there are enforceable rights and obligations between the parties. An example such a transaction would be a charity receiving unsolicited cash donations from the public or second-hand goods for resale or distribution.

    (b) Another example is where an arrangement only includes standard terms and conditions – but only where an entity has previously determined that those terms and conditions do not create enforceable rights and obligations with one or more parties.

61. We acknowledge that, while some charities may receive a high volume of these types of donations, some of the donations may not be low in value. However, the purpose of this authoritative guidance is not to provide guidance on what a 'low value' or 'high volume' transaction is. The guidance is merely trying to reduce the costs associated with performing the binding arrangement assessment. The outcome of applying this authoritative guidance and performing a detailed assessment should be the same.

Indicative wording for the guidance

62. We have developed the following indicative wording:

> *In some circumstances, an entity may reach a conclusion that a transaction is without a binding arrangement without needing to perform a detailed consideration. Examples of such circumstances include the following:*
>
> - *Transactions which, by their nature, involve little or no interaction with the other party (e.g., cash donations from the public, second-hand goods in-kind received for resale or distribution).*
> - *Arrangements that only include standard terms, conditions or mechanisms, where the entity has previously determined that those terms and conditions do not create enforceable rights and obligations with one or more parties.*
>
> *In other cases, the entity may need to consider a wide range of factors, such as those noted in paragraph AG25.1(b), before it can satisfy itself as to whether a binding arrangement exists.*

63. Note – at the June 2026 meeting, the Board agreed to relocate Implementation Guidance paragraph B.2 to a new paragraph AG25.1 in the proposed standards. (Refer to page 29 in the June 2026 public agenda papers for the approved wording for paragraph AG25.1).

Advantages and disadvantages of Option D

64. The table below sets out the advantages and disadvantages of Option D as a possible action.

Advantages	Disadvantages
Allows for a reduction in cost, time and effort required to assess transactions where it is already evident that no binding arrangement exists.	Entities would still need to perform a binding arrangement assessment for at least one arrangement with standard terms and conditions. These standard terms and conditions would need to be monitored as they may change over time.
Does not introduce another area of judgement. Instead, it reduces the amount of judgement required when applying the binding arrangement principle to certain transactions where the conclusion is likely to be clear.	The guidance reduces, but does not fully eliminate, the need to apply judgement because we have not listed every circumstance for which a detailed assessment is not required.
Provides clear guidance: • That detailed binding arrangement assessments may not be required but some consideration is still needed. • On certain circumstances which may not require a detailed assessment, which is relevant to where there are disproportionate costs. This directly responds to the feedback that assessing each individual arrangement will result in disproportionate costs.	Entities may treat the list of examples as an exhaustive list, which could limit the cost relief that an entity could gain from the guidance. An entity may not consider applying the guidance to other types of transactions if they are not specifically listed as examples.

Conclusion on Option D

65. We consider that the advantages outweigh the disadvantages, as Option D could be helpful to those entities with a high volume of transactions (which may or may not be low in value). Option D also has the advantage of being less complex and judgemental to apply than Options A-C which will make it easier for Tier 2 NFPs and entities which do not have many internal resources available to perform detailed assessments of each individual transaction. Therefore, we recommend Option D as a response to stakeholder feedback.

Questions for the Board:

Q4. Does the Board **AGREE** with our conclusion on Option D?

Q5. Does the Board have any **FEEDBACK** on the indicative wording for the authoritative guidance, as set out in paragraph 62 of this memo?

Option E: Adoption and implementation support

Rationale for considering this option

66. Along with Option D, providing adoption and implementation support – in some cases, to emphasise existing guidance – could be used to alert entities to potential cost mitigations.

Relevant topics for adoption and implementation support

Application of materiality

67. When applying PBE Standards, an entity makes materiality judgements when making decisions about recognition, measurement, presentation and disclosure. Paragraph 10 of PBE IPSAS 3 states that:

    "*PBE Standards set out accounting policies that the NZASB has concluded result in financial statements of public benefit entities containing relevant and faithfully representative information about the transactions, other events, and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from PBE Standards to achieve a particular presentation of an entity's financial position, financial performance, or cash flows.*"

68. When performing binding arrangement assessments, an entity could decide that certain types of revenue or expense transactions are not material (both individually and collectively). In accordance with paragraph 10 of PBE IPSAS 3, the entity could make the decision not to perform binding arrangement assessments for these transactions and simply account for them as transactions without binding arrangements.

69. Through implementation support activities (such 'need to know' webinars) or short written guidance (such as FAQs), we could emphasise paragraph 10 of PBE IPSAS 3 and how it could apply to high volume low value transactions. However, we would need to take care not to interpret the requirements of paragraph 10 in the context of performing binding arrangement assessments for individual transactions.

Application of similar enforcement mechanisms across arrangements

70. Assessing the enforceability of an arrangement is one of the key judgements that an entity must make when performing a binding arrangement assessment. Minimising the effort required to make this judgement would help to reduce the overall cost of performing the binding arrangement assessment.

71. Through implementation support activities (such 'need to know' webinars) or short written guidance (such as FAQs), we could highlight that, while transactions may have unique terms and conditions, the enforceability mechanisms available to an entity will likely not vary across individual agreements. For example, enforcement through the courts may be a common enforcement mechanism across several individual agreements that an entity enters into. Therefore, if an entity develops an understanding of the enforcement mechanisms available to it, this could help to minimise the ongoing time

and resources required for binding arrangement assessments as the conclusion on a key judgement will have been made upfront.

Advantages and disadvantages of Option E

72. The table below sets out the advantages and disadvantages of Option E as a possible action.

Advantages	Disadvantages
Emphasises certain requirements in PBE Standards which could help entities mitigate the costs of their binding arrangement assessments.	Is not authoritative guidance, so it does not carry the same weight as authoritative guidance (particularly from an assurance perspective) and may result in diversity when applied in practice.
Does not introduce new judgements.	There is a risk of us inadvertently interpreting the requirements in PBE Standards through staff guidance/webinars, which is not our role as the standard setter.

Conclusion on Option E

73. We consider that the advantages outweigh the disadvantages, as Option E could be helpful to those entities with a high volume of transactions (which may or may not be low in value). Therefore, we recommend Option E as a response to stakeholder feedback, in conjunction with Option D.

Question for the Board:

Q6. Does the Board **AGREE** with our conclusion on Option E?

Next steps

74. If the Board agrees with our recommendations, we will finalise the wording of the authoritative guidance under Option D and its location within the proposed standards. We will present the final wording and location to the Board at a future meeting (when the final proposed standard is considered by the Board).

75. Along with the other adoption and implementation support that the Board has agreed to at previous meetings, we will consider in what form this support will take once we have addressed all the feedback received on these consultations.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Transfer Expenses: Analysis of stakeholder feedback on the application of paragraph AG39 in ED PBE IPSAS 48 *Transfer Expenses***
Date:	11 November 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 discuss the feedback received from stakeholders on the perceived costs and concerns associated with applying paragraph AG39 of ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standard'). Paragraph AG39 states that:

   "A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately."

2. Agenda item 7.7 (Board-only paper) sets out the detailed comments received from stakeholders on this matter. We have given each comment a unique number so that the Board can refer back to that agenda item as necessary.

Recommendations

3. We recommend that the Board **AGREES** with the following actions to respond to the stakeholder feedback on the costs and concerns associated with applying paragraph AG39:

   (a) Develop non-authoritative guidance (i.e., paragraphs within the Basis for Conclusions section of the proposed standard) which sets out certain observations of the Board relating to the application of paragraph AG39 (**Option B**).

   (b) Provide adoption and implementation support (**Option C**) with respect to:

      (i) The application of materiality;

      (ii) Option B; and

(iii) The arrangements to which paragraph AG39 applies.

Structure of this agenda item

4. This memo includes the following sections:

(a) Stakeholder feedback and possible options to address the feedback

(b) Option A: Exemption where the costs to estimate progress outweigh the benefits

(c) Option B: Non-authoritative guidance setting out specific Board observations

(d) Option C: Adoption and implementation support

(e) Next steps

Stakeholder feedback and possible options to address the feedback

Feedback received relating to the application of paragraph AG39

5. We received 13 comments from 4 respondents relating to the costs and challenges associated with applying paragraph AG39. In summary, we heard that:

(a) There appears to be an implicit requirement to 'monitor' or 'track' the transfer recipient's satisfaction of its obligations in a binding arrangement. This may require the development of new systems and processes beyond what is currently required under grant acquittal arrangements

(b) From an audit perspective, current grant acquittal arrangements may not be adequate to provide the evidence required to support the recognition of a transfer right asset under the circumstances contemplated by paragraph AG39.

(c) The above challenges are exacerbated in cases where the transfer recipient's obligation has a significantly long timespan, current grant reporting timelines do not line up with the transfer provider's financial year and/or when the transfer recipient's performance is delivered in a form that is difficult to monitor e.g. services.

(d) There is a concern that the requirement to expense the transfer right asset when progress cannot be reliably estimated will be used as a means to avoid ongoing 'monitoring' or 'tracking' of the transfer recipient's satisfaction of its obligations in a binding arrangement and for transfer providers to continue with their current grant acquittal arrangements

6. Further information on these 13 comments can be found in the following tables.

Stakeholder feedback relating to the application of paragraph AG39 **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
3	5	5
Comment #85, 109 and 119	*Comment #40, 62, 87, 101 and 117*	*Comment # 50, 51, 60, 63 and 105*

Stakeholder feedback relating to the application of paragraph AG39	
Respondent	**Number of comments**
Auckland Council	**1**
CAANZ	**3**
Outreach feedback	**6**
Post-consultation follow-up with respondents	**3**
Total	**13**

7. In considering the costs and concerns mentioned above, it is useful to note that the scope of paragraph AG39 is limited to a **subset of binding arrangements,** i.e. where the **binding arrangement specifies** that **as the transfer recipient satisfies its obligations, the entity's transfer right is reduced accordingly**.

8. From internal discussions with the assurance team, we note that auditors will look to:

   (a) obtain sufficient appropriate audit evidence to support the recognition of a transfer right asset, but if the evidence is not there then that raises the question as to whether the entity has enough information to support the recognition in the first place; and

   (b) understand and challenge how the entity has considered whether it can reliably estimate the progress.

Identifying possible actions to respond to the feedback

9. The crux of the feedback appears to be the uncertainty about the extent of the effort required to be able to "reliably estimate" the transfer recipient's progress. Judgements around what constitutes a "reliable estimate" and the level of resources required to perform the estimation may be a struggle for some entities, such as those in the NFP sector.

10. Before identifying possible actions to respond to the feedback noted in paragraph 5 of this memo, we need to consider what is meant by "reliably estimate" in the context of paragraph AG39.

The meaning of "can reliably estimate"

11. We considered the meaning of "can reliably estimate" in the context of paragraph AG39 and how it is used in other PBE Standards. We did this work as part of our analysis on whether to refer the matter to the IPSASB Application Group (IAG)[1]. Paragraphs 12-16 below substantively reproduce the analysis we included in agenda item 8.1c from the June 2026 Board meeting.

12. The proposed standard does not contain any further guidance on what is meant by "can reliably estimate". However, we note that paragraph AG38 of the proposed standard states that a transfer recipient's satisfaction (or lack of satisfaction) of its obligations can serve as an indicator for whether the entity continues to have enforceable rights under the binding arrangement. An essential aspect of enforceability is the ability to hold the

[1] Ultimately, we recommended not to refer the matter to the IAG, which the Board agreed with in June 2026.

other party (in this case, the transfer recipient) accountable for the satisfaction of its obligations – an inability to do so would mean that the arrangement is not enforceable (and therefore is not a binding arrangement).

13. Therefore, if a transfer provider has determined that it has a binding arrangement – resulting in the recognition of a transfer right asset – then it must have concluded that it is able to hold the transfer recipient accountable (and therefore, has 'control' over the asset). This implies a certain level of oversight over the transfer recipient's progress on the transfer provider's part.

14. However, there is no explicit requirement for an entity to implement and resource a new system, processes and controls to provide this oversight, as paragraph AG39 merely states that an entity *shall* ***consider*** *if it* ***can*** *reliably estimate the transfer recipient's progress (*rather than stating that an entity **shall** reliably estimate the transfer recipient's progress). Based on discussions with the sub-committee of the Board[2], we consider that an entity would need to consider its *current* situation and capability. This aligns with the fact that an entity's determination of whether it has an enforceable arrangement (which is required for transfer right asset recognition) is based on facts and circumstances at *inception* of the arrangement (paragraph AG15).

15. Through discussions with the sub-committee, it was noted that other PBE Standards make reference to the concept of "reliably estimate". For example, one of the conditions for recognition of a provision is that a ***reliable estimate can be made*** of the amount of the obligation (paragraph 22 of PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*). Similarly, one of the conditions for recognition of an intangible asset is that the cost or fair value of the asset ***can be measured reliably*** (paragraph 28 of PBE IPSAS 31 *Intangible Assets*). Both of these standards note that *information that is reliable is free from material error and bias and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent.* Adding any further guidance on this concept, merely for the purposes of the proposed standard, could have unintended consequences for other PBE Standards. Furthermore, the existing requirements in PBE IPSAS 19 and PBE IPSAS 31 quoted above indicate that consideration of *whether an entity can make a reliable estimate* or measurement for the purpose of determining applicable accounting requirements is not a new concept – it already exists in other PBE Standards and seems to be a well-established concept.

16. Finally, we note that an entity that can reliably estimate a transfer recipient's progress but chooses not to (thereby recognising a transfer expense immediately) will likely not be in compliance with the standard – since paragraph AG39 states that an entity shall consider if it ***can*** reliably estimate progress (and expense if it ***cannot***).

Identification of possible actions

17. In light of the analysis in paragraphs 12-16 above:

    (a) We do not consider it appropriate to provide guidance directly on what is meant by "can reliably estimate".

[2] In April 2026, the Board agreed to establish a sub-committee to provide focused technical consideration of potential IAG matters prior to referral to the full board.

(b) We do not consider that any further action is required with respect to the feedback noted in paragraph 5(d) of this memo.

18. However, we have considered whether to provide practical expedients relating to the application of paragraph AG39 for cost/benefit reasons, and whether to provide more general non-authoritative guidance on the application of paragraph AG39. We have identified three options for addressing the feedback, which are listed in Table 1 below.

Table 1 – Options to address the feedback on the application of paragraph AG39

Ref	Option	Action type	Possible action	Conclusion
A	Exemption where the costs to estimate progress outweigh the benefits	Standard setting	Develop an optional exemption for those transactions where the entity determines that it is not practicable to estimate the transfer recipient's progress because the costs to do so outweigh the benefits.	**Not recommended**
B	Non-authoritative guidance setting out specific Board observations	Non-authoritative guidance	Develop Basis of Conclusions paragraphs which set out certain observations of the Board relating to the application of paragraph AG39	**Recommended**
C	Adoption and implementation support	Adoption and implementation support	Provide adoption and implementation support to emphasise: • the application of materiality; • Option B; and • The arrangements to which paragraph AG39 applies	**Recommended**

19. The rest of this memo contains analyses for each of these options, which include (as applicable):

(a) The rationale for considering the option

(b) Precedent for the option in existing accounting standards

(c) Indicative text to include in the proposed standard

(d) Advantages and disadvantages of the option

(e) Conclusion on whether to recommend the option to address the feedback

Option A: Exemption where the costs to estimate progress outweigh the benefits

Rationale for considering this option

20. Some entities – such as smaller NFP entities – may lack the resources to be able to monitor or track the recipient's progress in a binding arrangement, even when they may technically be able to reliably estimate progress. For example, an entity may receive

adequate reporting on progress from the recipient but does not have the resources to perform a reliable estimate (e.g. because of a lack of staff resources).

21. An exemption which allows entities to conclude that estimating progress on a particular transaction with a binding arrangement is not practicable – because the costs to do so outweigh the benefits – could help to prevent undue cost and effort for these entities.

Precedent in existing accounting standards

22. PBE IPSAS 23 *Revenue from Non-exchange Transactions* contains an exemption that we will refer to in this memo as the 'donated inventory exemption'. Paragraph 97.1 of PBE IPSAS 23 states that:

"... an entity may elect not to recognise goods in-kind that meet the definition of inventories in PBE IPSAS 12 Inventories ***, if it is not practicable to measure reliably the fair value of those goods at the date of acquisition because the costs of recognising the goods at the date of acquisition outweigh the benefits.*** *This will often be the case for entities that receive high-volume, low-value second-hand goods in-kind for resale or distribution. In the case where goods in-kind are sold, the entity recognises revenue when they are sold. In the case where such goods in-kind are distributed free of charge, the entity does not recognise revenue."*

23. This donated inventory exemption is included, substantively unchanged, in ED PBE IPSAS 47 *Revenue* (paragraph AG166.1).

Developing an optional exemption substantively similar to the donated inventory exemption

24. We considered how the exemption in paragraph 97.1 of PBE IPSAS 23 could be adapted to apply to a situation where an entity must consider whether they can reliably estimate the recipient's progress in a binding arrangement. We have developed the following indicative wording, shown in blue font below (paragraph AG39 is shown in black font for context and has not been amended):

Existing paragraph:
AG39. A binding arrangement may specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. This will result in the gradual derecognition of the transfer right asset and the recognition of an expense in a similar pattern as when the transfer recipient satisfies its obligations. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement. If the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, the transfer right asset shall be expensed immediately.

Potential additional paragraph:
AG39A. In a binding arrangement as described in paragraph AG39: An entity may elect not to consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement, if it is not practicable to do so because the costs of performing the estimation would outweigh the benefits. This will often be the case if an entity can access the information that would enable a reliable estimate to be made but does not have the internal resources available to do so without

undue cost or effort. In such circumstances, the transfer right asset shall be expensed immediately.

Advantages and disadvantages of Option A

25. The table below sets out the advantages and disadvantages of Option A as a possible action.

Advantages	Disadvantages
Allows an entity to forego consideration of whether it can reliably estimate progress, if it determines it is not practicable to do so because the costs of reliable estimation would outweigh the benefits. This would allow entities to avoid having to perform an estimation if the entity does not have the resources to do so (but has the information).	Replaces one form of judgement (i.e. consider whether a reliable estimate of progress can be made) with another (i.e. assessing whether the costs to perform the estimation outweigh the benefits).
Is based on an existing exemption in PBE IPSAS 23 (the donated inventory exemption) which is familiar to some entities and auditors. Refer to agenda item 7.4 paragraphs 39-41, where we discuss the use of the donated inventory exemption in practice.	Audit challenges may arise if entities cannot support their justification for using the exemption.
	It is unclear that an exemption of this nature would be very useful. • The exemption will likely only benefit a narrow range of stakeholders – i.e. those that can access the information to be able to make a reliable estimate but do not have the resources. • It is likely that the more common challenge to reliably estimating the transfer recipient's progress is that entities would not receive the information required – or would only receive an insufficient amount of information – to make a reliable estimate (meaning that they **cannot** make a reliable estimate). In such circumstances, paragraph AG39 already requires the immediate expensing of the transfer right asset –

	and we think that entities would be readily able to conclude this from the existing wording of paragraph AG39.
	As noted in agenda item 7.4 paragraph 39(d), an entity not having enough resources is not typically used as a justification for using the donated inventory exemption. There is a risk that Option A may create an inappropriate precedent of allowing entities to claim that they do not have the resources to comply with accounting requirements – even when the information to do is available to them – which could result in PBEs' financial statements not providing relevant, faithfully representative information to users.

Conclusion on Option A

26. We consider that the disadvantages of this option will likely outweigh the advantages, for the reasons noted above. We do not recommend Option A as an action to address the stakeholder feedback.

Question for the Board:

Q1. Does the Board **AGREE** with our conclusion on Option A?

Option B: Non-authoritative guidance setting out specific Board observations

Rationale for considering this option

27. As noted in paragraphs 12-16 of this memo, the Board sub-committee for the IAG matters made the following observations:

    (a) An entity would need to consider its *current* situation and capability with respect to whether it can reliably estimate the transfer recipient's progress.

    (b) There is no explicit requirement for an entity to implement and resource a new system, processes and controls to provide this oversight, as paragraph AG39 merely states that an entity *shall **consider** if it **can** reliably estimate the transfer recipient's progress*.

    (c) An essential aspect of enforceability is the ability to hold the other party accountable for the satisfaction of its obligations. If a transfer provider has determined that it has a binding arrangement, then it must have concluded that it is able to hold the transfer recipient accountable (and therefore, has 'control' over the

transfer right asset). This implies a certain level of oversight over the transfer recipient's progress on the transfer provider's part.

28. We consider that these observations could be useful and helpful to entities when contemplating the requirements in paragraph AG39. We consider that non-authoritative guidance in the form of one or more Basis of Conclusions (BC) paragraphs would be an appropriate location for these observations.

29. Along with the points noted in paragraph 27 above, we think it would also be beneficial to highlight in the BC paragraphs the following points noted from the analysis on Option A, i.e.:

    (a) It is likely that the more common challenge to reliably estimating the transfer recipient's progress is that entities would not receive the information required – or would only receive an insufficient amount of information – to make a reliable estimate (meaning that they **cannot** make a reliable estimate).

    (b) As noted in agenda item 7.4 paragraph 39(d), an entity not having enough resources is not typically used as a justification for using the donated inventory exemption.

Developing the indicative wording for the non-authoritative guidance

30. We have developed the following indicative wording for BC paragraphs.

> The Board discussed the feedback received from stakeholders on the application of paragraph AG39. A key concern raised by stakeholders is that there appears to be an implicit requirement to 'monitor' or 'track' the transfer recipient's satisfaction of its obligations in a binding arrangement. This may require the development of new systems and processes beyond what is currently required under grant acquittal arrangements.
>
> When considering how to address this feedback, the Board made the following observations:
>
> - Paragraph AG39 applies only to those binding arrangements that specify that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly. In these situations, an entity shall consider if it can reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations in the binding arrangement.
> - There is no explicit requirement for an entity to implement and resource a new system, processes and controls to enable this estimation, as paragraph AG39 states that an entity *shall **consider** if it **can** reliably estimate the transfer recipient's progress*.
> - An entity's determination of whether it has an enforceable arrangement (which is required for the recognition of a transfer right asset) is based on facts and circumstances at *inception* of the arrangement. (See paragraph AG15). It therefore follows that an entity, when applying paragraph AG39, would need to consider its *current* situation and capability with respect to whether it can reliably estimate the transfer recipient's progress.

- An essential aspect of enforceability is the ability to hold the other party accountable for the satisfaction of its obligations. If a transfer provider has determined that it has a binding arrangement, then it must have concluded that it is able to hold the transfer recipient accountable (and therefore, has 'control' over the transfer right asset). This would imply a certain level of oversight over the transfer recipient's progress on the transfer provider's part.
- If an entity that does not have access to information – or would only receive an insufficient amount of information – on the transfer recipient's progress towards satisfying its obligations, it is likely that the entity cannot reliably estimate the transfer recipient's progress towards complete satisfaction of its obligations, and would need to expense the transfer right asset.
- An entity may have access to information that would enable a reliable estimate to be made, but may not have the internal resources available to do so without undue cost or effort. Generally, lack of internal resources is not considered an appropriate reason not to comply with accounting requirements when the information to do so is available.

Advantages and disadvantages of Option B

31. The table below sets out the advantages and disadvantages of Option B as a possible action.

Advantages	Disadvantages
Provides the Board's views on the intention behind paragraph AG39 without making it authoritative. This means less scope for unintended consequences, while still helping entities understand and apply paragraph AG39. In doing so, this would mitigate some of the costs and concerns raised by stakeholders. For example, authoritative guidance (such as AG paragraphs) may risk unintended consequences by interacting inappropriately with the other guidance on enforceability – in particular, the new paragraph AG25.1 which the Board approved in June 2026 (Refer to page 29 in the June 2026 public agenda papers for the approved wording for paragraph AG25.1). Ultimately, this non-authoritative guidance could be helpful for those	Could be seen as an interpretation of a requirement originating from the international standard (i.e. IPSAS 48), which the Board typically seeks to avoid. However, this disadvantage could be mitigated by the wording of the BC paragraph (i.e. making it clear that these are Board observations and not requirements in their own right).

entities that are concerned about the costs of applying paragraph AG39.	
	Not authoritative guidance, so does not hold as much weight as more authoritative sources of guidance. Its location in the Basis for Conclusions would not be prominent and could easily be missed by preparers and auditors.

Conclusion on Option B

32. We consider that the advantages outweigh the disadvantages. Therefore, we recommend Option B as a response to the stakeholder feedback.

Questions for the Board:

Q2. Does the Board **AGREE** with our conclusion on Option B?

Q3. Does the Board have any **FEEDBACK** on the indicative wording for the BC paragraphs, as set out in paragraph 30 of this memo?

Option C: Adoption and implementation support

Rationale for considering this option

33. Along with Option B, providing adoption and implementation support – in some cases, to emphasise existing guidance – could be used to alert entities to potential cost mitigations.

Relevant topics for adoption and implementation support

34. Under Option C, we could provide adoption and implementation support on the following topics, through implementation support activities (such 'need to know' webinars) or short written guidance (such as FAQs).

Application of materiality

35. When applying PBE Standards, an entity makes materiality judgements when making decisions about recognition, measurement, presentation and disclosure. Paragraph 10 of PBE IPSAS 3 states that the accounting policies set out in PBE Standards "*need not be applied when the effect of applying them is immaterial"*.

36. An entity may decide that certain transfer expense transactions with binding arrangements are not material (both individually and collectively). In accordance with paragraph 10 of PBE IPSAS 3, the entity could make the decision to account for them as if they were non-binding (which would mean recognising a transfer expense when the resources are transferred to the transfer recipient, rather than recognising a transfer right asset). We could highlight the application of materiality through the types of adoption and implementation support noted in paragraph 31 of this memo.

37. Please note that one of our recommendations in agenda item 7.4 is to provide similar guidance with respect to binding arrangement assessments (see paragraphs 67-69 in

agenda item 7.4). If the Board agrees with the recommendation in that agenda item, we could highlight the application of materiality *before* the entity determines whether an arrangement is binding. This would have a similar effect to the entity's action contemplated in paragraph 33 above (i.e. recognising a transfer expense when the resources are transferred to the transfer recipient).

Option B – i.e. non-authoritative guidance relating to monitoring transfer recipients' progress

38. As we acknowledged in the analysis of Option B, a disadvantage of that option is the lack of prominence of BC paragraphs. Through the types of adoption and implementation support noted in paragraph 31 of this memo, we could emphasise these BC paragraphs to bring them to preparers' and auditors' attention.

The arrangements to which paragraph AG39 applies

39. Paragraph AG39 only applies to a subset of transfer expense transactions, specifically:

    (a) Those that have binding arrangements; and

    (b) Those where the binding arrangement specifies that as the transfer recipient satisfies its obligations, the entity's transfer rights are reduced accordingly.

40. Binding arrangements which are completed within one financial year (and where no interim reporting is required) will be unaffected by the requirements in paragraph AG39, as at balance date there would be no transfer right asset recognised in the statement of financial position.

41. Through adoption and implementation support, we could highlight the fact that the requirement to consider whether a reliable estimate can be made of a recipient's progress only applies to transfers with binding arrangements (and only those which have certain terms and extend beyond one financial year).

Advantages and disadvantages of Option C

42. The table below sets out the advantages and disadvantages of Option C as a possible action.

Advantages	**Disadvantages**
Emphasises certain requirements in PBE Standards (and non-authoritative guidance in the Basis of Conclusions of the proposed standard) which could help entities mitigate the costs of applying paragraph AG39	Is not authoritative guidance, so it does not carry the same weight as authoritative guidance (particularly from an audit perspective).
Does not introduce new judgements.	There is a risk of inadvertently interpreting the requirements in PBE Standards, which is not our role as the standard setter.
	Cost mitigations due to immateriality would not assist with material transactions with binding arrangements.

Conclusion on Option C

43. We consider that the advantages outweigh the disadvantages. Therefore, we recommend Option B as a response to the stakeholder feedback.

Question for the Board:

Q4. Does the Board **AGREE** with our conclusion on Option C?

Next steps

44. If the Board agrees with our recommendations, we will finalise the wording of the non-authoritative guidance under Option B and its location within the Basis for Conclusions. We will present the final wording and location to the Board at a future meeting.

45. Along with the other adoption and implementation support that the Board has agreed to at previous meetings, we will consider in what form this support will take once we have addressed all the feedback received on these consultations.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Revenue and Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue and Transfer expenses: Analysis of stakeholder feedback on other topics relating to cost**
Date:	11 November 2026
Prepared by:	Carly Berry
Through:	Gali Slyuzberg; Michelle Lombaard

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

Purpose[1]

1. In this agenda item, we present our analysis of the feedback relating to the following anticipated costs of adopting ED PBE IPSAS 47 *Revenue* and ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standards'), as well as our recommended actions in response:

Time and resources required on adoption
Ongoing application costs relating to judgements and assessment of new and revised arrangements
Not-for-profit (NFP) concerns about capability and capacity
Audit costs / challenges
Adoption effort not seen to result in actual change
Terminology concerns
Difficult / challenging to understand the requirements
Updating systems, processes and/or documentation
Other concerns

Recommendation

2. We recommend that the Board **AGREES** with our recommended actions in response to the feedback on these cost topics, as set out in this agenda item.

[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).

Structure of this agenda item

3. This memo includes the following sections:

(a) Overview of the topics addressed in this agenda item

(b) Topic 1: Time and resources required on adoption

(c) Topic 2: Ongoing application costs relating to judgements and assessment of new and revised arrangements

(d) Topic 3: NFP concerns about capability and capacity

(e) Topic 4: Audit costs / challenges

(f) Topic 5: Adoption effort not seen to result in actual change

(g) Topic 6: Terminology concerns

(h) Topic 7: Difficult / challenging to understand the requirements

(i) Topic 8: Updating systems, processes and/or documentation

(j) Topic 9: Other concerns

(k) Next steps

Overview of the topics addressed in this agenda item

4. The table below sets out the topics addressed in this agenda item, along with the proposed standards to which they relate and the paragraph references to where the feedback is addressed.

#	Topic	Proposed standard	Paragraph ref in this memo
1	Time and resources required on adoption	Both	6 – 14
2	Ongoing application costs relating to judgements and assessment of new and revised arrangements	Both	15 – 20
3	NFP concerns about capability and capacity	Both	21 – 24
4	Audit costs / challenges	Both	25 – 27
5	Adoption effort not seen to result in actual change	Revenue	28 – 33
6	Terminology concerns	Both	34 – 52
7	Difficult/challenging to understand the requirements	Both	53 – 59
8	Updating systems, processes and/or documentation	Both	60 – 64
9	Other concerns	Both	65 – 78

Note: in certain circumstances:

- *a single comment from a respondent may be split among two or more topics.*
- *a respondent may have made several comments relating to the same topic.*

5. Agenda item 7.7 (Board-only paper) sets out all the comments received relating to benefits and costs. We have given each comment a unique number which we will use to refer Board members back to that agenda item throughout the analysis.

Topic 1: Time and resources required on adoption

6. There are 31 comments relating to this topic.

Topic: Time and resources required on adoption Comments by sector and proposed standard			
	Public sector	**NFP**	**Both**
Revenue	**8 comments**	**2 comments**	**4 comments**
Comment ref #	32, 72, 74, 81, 111, 133, 134, 137	41, 144	69, 70, 76, 77
Transfer expenses	**4 comments**	**1 comment**	**None**
Comment ref #	90, 119, 132, 138	42	-
Both	**5 comments**	**2 comments**	**5 comments**
Comment ref #	73, 143, 146, 149, 150	130, 131	53, 55, 59, 139, 140

Topic: Time and resources required on adoption	
Respondent	**Number of comments**
Treasury	3
Auckland Council	4
CAANZ	5
Platform Trust	1
OAG	1
Outreach feedback	11
Post-consultation follow-up with respondents	6
Total	**31**

Analysis and recommended actions

7. In these 31 comments:

   (a) Respondents identified various implementation costs (such as training costs, potential updates to systems and grant documentation), as well as those factors that could make implementation more challenging. These include the resource constraints faced by PBEs compared with for-profit entities, the breadth and diversity of revenue streams and the significant difference between current revenue accounting and the proposed revenue standard. One respondent noted the

significant challenge to implement both proposed standards together, with another also noting that PBEs do not have the same resources as for-profit entities.

(b) Respondents had suggestions on how to assist with implementation. Several respondents suggested providing more examples, with some of these respondents noting specific scenarios that could be addressed in examples. Respondents also suggested setting up implementation working groups and workshops and webinars, with one respondent noting that significant awareness raising and educational programmes will be required, particularly in the NFP sector. Two respondents were complimentary of the educational material provided during the consultation.

8. We noted the following specific feedback:

(a) Three comments compare the expected scale of implementation effort with the adoption of NZ IFRS 15 *Revenue from Contracts with Customers* in the for-profit sector.

(b) One comment – related to the proposed revenue standard – notes that entities should be informed of the potential systems impact of implementing the requirements, particularly if some entities are looking to upgrade systems within the immediate future.

9. In response to this feedback, we considered three courses of action:

Adoption and implementation support

10. To help ease the concerns noted by respondents under this topic, we consider that providing adoption and implementation support, outside the proposed standards, would be beneficial. For example, we would consider:

(a) Dedicated workshops / roundtables aimed at exploring the application of the proposed standards in real-time, with opportunities for stakeholders to engage with one another and with leaders within the sectors. We would look to co-host these types of events with practitioners and umbrella groups within the sectors, to ensure a combined effort across the financial reporting landscape.

(b) The nature, content and extent of educational material to be provided to assist with complex areas of the standard. In April and June 2026, the Board has already agreed to provide adoption and implementation support to assist stakeholders with application of various elements of the binding arrangement principle (e.g. webcasts / webinars). As we continue with our technical analysis of all the feedback received on these consultations, we will consider whether other aspects of the proposed standards require extra support.

(c) Sharing lessons learned from the implementation of NZ IFRS 15 in the for-profit sector, along with the updated webcast on the five-step revenue recognition model we released during the consultation (as discussed with the Board at the June 2026 meeting).

(d) Coordinating and setting up implementation working groups for each sector, comprised of key stakeholders in the public sector and NFP sector. As part of our

ongoing conversations with key stakeholders (such as the Audit Office, Treasury and CAANZ) we would seek their assistance with this task.

(e) Encouraging entities to develop an implementation plan which would include, for example: staff responsibilities and resourcing, timelines and key milestones, gap analysis and systems and process impacts.

11. For all the examples listed in paragraph 10 above, we would seek coordination and assistance from key stakeholders in each sector. For example, as part of our ongoing discussions with these key stakeholders, we would discuss the content and level of involvement from us and from them when it comes to developing educational material, with the aim of ensuring a consistent message to stakeholders from all parties.

Recommended action

C	Adoption and implementation support

Question for the Board:

Q1. Does the Board **AGREE** with the recommended action in paragraph 11 of this memo?

Developing additional illustrative examples for common New Zealand-specific situations

12. We note that several respondents indicated that additional examples (with a New Zealand focus) would be helpful. We have discussed additional examples with the Board in June 2026, where:

(a) the Board agreed to review the *existing* illustrative examples in both proposed standards, to determine whether and how to make them more New Zealand-specific. We consider that this action would also help to alleviate implementation costs through enabling stakeholders to see how the requirements apply in our specific jurisdiction.

(b) we noted to the Board that we would bring recommendations to a future meeting regarding development of *additional* illustrative examples to reflect common New Zealand-specific situations affecting particular sectors or sub-sectors of entities **if feedback gathered on further outreach suggests that this would be appropriate.** We intend to continue exploring this option with key stakeholders during our ongoing discussions with them, taking into consideration the specific scenarios noted by respondents in the feedback under this topic.

13. Recommendations on any changes to existing illustrative examples, as well as any additional illustrative examples to help with implementation of the proposed standards, will be presented to the Board at a future meeting.

Additional transitional provisions

14. Additional transitional provisions, in one or both of the proposed standards, may also assist with implementation costs by easing the amount of work to be performed on adoption. Other transitional options include phasing of implementation (e.g. permitting the revenue standard to be implemented before the transfer expenses standard). The Board will consider any staff recommendations on additional transitional provisions and other options at a future meeting, once we have fully analysed the feedback on that topic.

Topic 2: Ongoing application costs relating to judgements and assessment of new and revised arrangements

15. There are 25 comments relating to this topic.

Topic: Ongoing application costs relating to judgements and assessment of new and revised arrangements **Comments by sector and proposed standard**			
	Public sector	**NFP**	**Both**
Revenue	**4 comments**	**2 comments**	**3 comments**
Comment ref #	71, 74, 75, 136	79, 114	76, 78, 113
Transfer expenses	**6 comments**	**None**	**2 comments**
Comment ref #	44, 68, 90, 91, 104, 119	-	47, 49
Both	**4 comments**	**None**	**4 comments**
Comment ref #	37, 45, 73, 112	-	57, 59, 61, 159

Topic: Ongoing application costs relating to judgements and assessment of new and revised arrangements	
Respondent	**Number of comments**
Treasury	2
Auckland Council	5
CAANZ	5
Outreach feedback	7
Post-consultation follow-up with respondents	6
Total	**25**

Analysis and recommended actions

16. In these 25 comments:

    (a) Respondents are in agreement that both standards will result in ongoing application costs due to the judgements required by the proposed standards and the need to assess whether arrangements are binding or non-binding. Changes to arrangements would require reassessment, adding to the ongoing cost. The risk of

inconsistent application of principles was noted, as well as challenges in ensuring consistent interpretation across multi-party or co-funded arrangements in the public sector. A couple of respondents highlighted the fact that it would not only be the finance team involved in ongoing assessments – staff in other areas of an organisation (such as business managers) would likely have the information required to perform the assessments and would therefore need to understand the principles as well. One respondent also noted that PBEs do not have the same resources as for-profit entities.

(b) One respondent noted that applying judgement will be difficult, but there are already a lot of judgements to be made when currently accounting for expenses that meet the definition of a transfer expense. And, to help with ongoing costs, another respondent suggested creating a database of stakeholder questions and answers that can be searched and filtered.

(c) Another respondent suggested that, to reduce cost, we could allow deferral of revenue and transfer expenses without any support, as long as the entity discloses how they have done so. The respondent also noted that measurement and recognition simplifications for Tier 2 would help those entities. In the absence of these cost-reducing measures, more examples are encouraged.

17. We note that ongoing application of judgement and reassessment of arrangements will inevitably involve a degree of cost. However, we consider that PBEs can minimise these costs through:

(a) A robust, well-planned and well-executed implementation plan, as noted in paragraph 10(e) above. A key component of such a plan should be the training of all relevant staff on the requirements in the standards, in particular the requirements for assessing whether an arrangement is binding. This would help to ensure consistent application of the principles across all arrangements. The implementation plan should also include considerations for ongoing assessment and reassessment (e.g. who is responsible for monitoring changes in arrangements, key processes to follow, etc).

(b) The decisions made by the Board in April and June 2026 in response to feedback received on the binding arrangement principle. The Board has directed us to provide adoption and implementation support to help entities with certain aspects of the principle, make certain targeted amendments to the authoritative text, and to perform a review of illustrative examples to determine whether and how to make them more New Zealand-specific (see paragraphs 12-13 in this memo).

(c) The recommendations that we make in agenda items 7.4 (high volume, low value transactions) and 7.5 (application of paragraph AG39 of the proposed transfer expenses standard). These recommendations are aimed at alleviating ongoing cost relating to binding arrangement assessments and the estimation of transfer recipient progress towards satisfaction of stated obligations respectively.

18. With respect to developing a database of questions and answers – we will consider keeping track of questions from stakeholders (and answers provided) internally. From this record we will look at publishing FAQs on the website as an additional source of support for stakeholders. Note – any responses to stakeholder questions will not involve interpretation of the standards or accounting advice.

19. Note - with respect to providing recognition and measurement concessions for Tier 2 entities, this is not possible under the current Accounting Standards Framework. We also do not consider it appropriate to allow deferral of revenue and transfer expenses with no conceptual basis.

Recommended action

C	Adoption and implementation support

Question for the Board:

Q2. Does the Board **AGREE** with the recommended action for Topic 2?

20. We note that there may be further staff recommendations and Board decisions that help to minimise ongoing cost as we continue to address the feedback at future meetings

Topic 3: NFP concerns about capability and capacity

21. There are 13 comments relating to this topic.

Topic: NFP concerns about capability and capacity **Comments by sector and proposed standard**			
	Public sector	**NFP**	**Both**
Revenue	**None**	**7 comments**	**None**
Comment ref #	-	29, 38, 41, 79, 80, 84, 96	-
Transfer expenses	**None**	**4 comments**	**None**
Comment ref #	-	39, 46, 42, 87	-
Both	**None**	**2 comments**	**None**
Comment ref #	-	83, 86	-

Topic: NFP concerns about capability and capacity	
Respondent	**Number of comments**
CAANZ	1
Platform Trust	2
Outreach feedback	8
Post-consultation follow-up with respondents	2
Total	**13**

Analysis and recommended actions

22. In these 13 comments:

    (a) Respondents are generally in agreement that NFPs will likely struggle with the application of these standards due to lack of resources and technical knowledge, especially Tier 2 NFPs. It was also noted that there would be opportunity costs in directing scarce resources away from the delivery of critical goods and services. (One respondent does not, however, think the costs of adopting the standard outweigh the benefits.)

    (b) Some respondents had suggestions for alleviating cost for these entities. For example, one respondent noted that education would be important while another respondent suggested that ideally a different standard should be applied by Tier 2 NFPs. Another respondent noted that if an NFP transfer provider was able to immediately recognise a transfer expense (instead of a transfer right asset where progress of the transfer recipient would then need to be monitored), then this would help to alleviate cost.

23. We acknowledge that NFP entities will likely face challenges in implementing the proposed standards for the reasons identified by respondents. We consider that the recommendations we have already made in this agenda item – particularly in relation to an extended lead time – would help to alleviate cost for NFP entities. We also consider that the recommendations we make in agenda items 7.4 and 7.5 (in relation to high-volume transactions that may be of low value, and the application of paragraph AG39 in the proposed transfer expenses standard on estimating the transfer recipient's progress towards satisfying obligations) would be helpful. Board decisions from April and June 2026 would be helpful to NFP entities too (see paragraph 17(b) in this memo).

24. In agenda item 7.3 (relating to feedback on the benefits of the proposed standards), a respondent noted that the standards could be applicable to the public sector first, thereby allowing for more comprehensive field testing in the NFP sector. Our response to the feedback in this agenda item is similar to the one we provided for that comment – i.e. we will consider various transition options and present recommendations to the Board at a future meeting.

Question for the Board:

Q3. Does the Board **AGREE** to take no further action with respect to Topic 3, beyond what is discussed in paragraphs 23 and 24?

Topic 4: Audit costs / challenges

25. There are 9 comments relating to this topic.

Topic: Audit costs / challenges Comments by sector and proposed standard			
	Public sector	**NFP**	**Both**
Revenue	**2 comments**	**1 comment**	**None**
Comment ref #	35, 71	114	-
Transfer expenses	**None**	**1 comment**	**1 comment**
Comment ref #	109	102	52
Both	**1 comment**	**1 comment**	**1 comment**
Comment ref #	82	43	65

Topic: NFP concerns about capability and capacity	
Respondent	**Number of comments**
CAANZ	1
Outreach feedback	5
Post-consultation follow-up with respondents	3
Total	**9**

Analysis and recommended actions

26. In these 9 comments, respondents note various audit costs and challenges that could arise as a result of implementing these proposed standards. In particular, we heard that:

    (a) Auditors will require clear documentation of judgements made which could add to the overall audit cost – this comment was specifically raised on the proposed revenue standard. It might be challenging for auditors to obtain sufficient, appropriate audit evidence (e.g., evidence that a transfer recipient has met its milestones) and entities might not know what they need to provide to their auditors in terms of evidence.

    (b) Smaller audit practices supporting smaller clients have fewer resources than larger firms, which could make it difficult when trying to interpret complex contracts and requirements.

27. We acknowledge these concerns. Additional costs incurred while auditing financial statements prepared under new accounting standards will be inevitable to a certain degree but would likely reduce over time as both preparers and auditors become more familiar with what is required. In the meantime, to help alleviate these costs, we recommend:

    (a) Encouraging entities, through messages communicated in our adoption and support activities, to discuss their implementation plan with their auditors as soon

as they have it ready. This will help the parties to obtain agreement on matters such as the extent of documentation required, key judgements to be made, etc, early in the process.

(b) Ensuring that audit practitioners are included in invitations to webinars and other events we host or co-host with stakeholders on the new requirements. We may include members of the XRB Assurance Team to listen in to the discussions as well. After these events we will look to publish 'what we heard' documents to share key points from the discussion with a wider audience.

Recommended action

C	Adoption and implementation support

Question for the Board:

Q4. Does the Board **AGREE** with the recommended action for Topic 4?

Topic 5: Adoption effort not seen to result in actual change

28. There are 4 comments relating to this topic.

Topic: Adoption effort not seen to result in actual change Comments by sector and proposed standard			
	Public sector	**NFP**	**Both**
Revenue	**2 comments**	**None**	**2 comments**
Comment ref #	73[2], 81	-	69, 98

Topic: Adoption effort not seen to result in actual change	
Respondent	**Number of comments**
Treasury	1
OAG	1
Post-consultation follow-up with respondents	2
Total	**4**

[2] This comment broadly relates to both proposed standard but, in the context of adoption effort, the comment relates only to revenue.

Analysis and recommended actions

29. We note that the feedback echoes in substance one of the identified costs in the consultation document for the proposed revenue standard, where we stated that:

> *Implementing the proposed PBE IPSAS 47 may involve significant effort due to the proposed Standard's length and complexity. However, for many PBEs, the practical impact on their revenue recognition processes may be minimal, leading to questions about the overall value of adopting such a comprehensive standard.*
>
> *While this represents a one-time implementation challenge, it is not necessarily a direct cost but rather a consideration of the balance between the effort required and the anticipated benefits.*

30. We acknowledge these concerns. As noted by one of the respondents, when NZ IFRS 15 was implemented in the for-profit sector some entities did not observe a significant change in their revenue numbers, even though the implementation effort may have been significant. In the PBE sector, where resources are limited (particularly in the NFP sector), we acknowledge that it may be difficult to justify implementation costs when there may not be a significant change in amounts reported. There are two broad ways that we recommend addressing this feedback:

Actions to minimise implementation costs

31. We have recommended actions to help minimise the time and cost required upon adoption of these proposed standards in this memo (see Topic 1). The Board has also agreed to provide adoption and implementation support for the application of various aspects of the binding arrangement principle in April and June 2026. We note that there may be further staff recommendations and Board decisions that help to minimise the costs of adoption as we continue to address the feedback over the next few months.

Emphasis of the benefits of the proposed revenue standard

32. There is good support from respondents on the identified benefits of the proposed revenue standard (see agenda item 7.3 for further discussion). Also, we still think that the requirements in the proposed standard provide a better framework to account for various types of revenue in a consistent manner. We intend to emphasise these benefits throughout all our engagement with stakeholders during adoption and implementation support activities once the standard is issued.

33. We would also look to highlight the benefits of NZ IFRS 15 where applicable to the proposed revenue standard.

Recommended action

C	Emphasis of the benefits through **Adoption and implementation support** already agreed by the Board in April and June 2026 and recommended in paragraph 11 of this memo.

Question for the Board:

Q5. Does the Board **AGREE** with the recommended action for Topic 5?

Topic 6: Terminology concerns

34. There are 9 comments relating to this topic. Most of these comments relate to the proposed transfer expenses standard.

Topic: Terminology concerns **Comments by sector and proposed standard**			
	Public sector	**NFP**	**Both**
Revenue	**None**	**None**	**1 comment**
Comment ref #	-	-	128
Transfer expenses	**3 comments**	**None**	**4 comments**
Comment ref #	103, 118, 124	-	16, 108, 120, 121
Both	**1 comment**	**None**	**None**
Comment ref #	123	-	-

Topic: Terminology concerns	
Respondent	**Number of comments**
Treasury	1
OAG	2
CAANZ	1
Outreach feedback	5
Total	**9**

Analysis and recommended actions

35. The feedback generally notes the potential for confusion to arise amongst stakeholders due the new terms introduced by the proposed transfer expenses standard. Some of the feedback also notes perceived inconsistencies in terminology between this proposed standard and the proposed revenue standard. One respondent also suggests that incorporating the Basis for Conclusions (BCs) from IPSAS 47 and IPSAS 48 in the proposed standards, and improving clarity and simplicity of the wording, will make implementation easier.

36. In addition to the general comments about the challenges associated with the new terminology, respondents identified several specific terms that could cause confusion amongst stakeholders. We consider each of these specific terms separately below.

Concern: Different terms used in each proposed standard to refer to the parties in an arrangement (comment #16)

37. One respondent noted that the terms used in the proposed revenue standard – resource recipient and resource provider – are similar, but not identical, to those used in the proposed transfer expenses standard (i.e. transfer recipient and transfer provider). The distinction between the terminologies is unclear and could be confusing as the proposed standards are essentially referring to the same parties. We note the following definitions of each term in the table below.

Term	Proposed standard	Definition
Resource recipient	Revenue	The entity receiving the consideration.
Transfer recipient	Transfer expenses	An entity that receives a good, service, or other asset from another entity without directly providing any good, service or other asset to that entity.
Resource provider	Revenue	The party that provides a resource to the entity.
Transfer provider	Transfer expenses	An entity that provides a good, service, or other asset to another entity without directly receiving any good, service or other asset in return.

38. We considered whether standardising these terms across both proposed standards could be an effective solution to any potential confusion – for example:

    (a) Use the terms 'resource recipient and resource provider' across both standards, as the term 'resource' is broad and could apply to specific types of transactions such as transfers.

    (b) Eliminate the qualifying adjective on all the terms and simply use 'recipient and provider' across both standards.

39. Ultimately, we consider that more confusion could arise if we use the same term across both proposed standards. For example, the definition of a resource provider (or provider) would be slightly different in each standard, as it is the reporting entity that is the provider in the proposed transfer expenses standard. Also, there will be entities using both standards and sometimes they will be both a recipient and a provider in situations where funding is passed from one entity within a group to another. Furthermore, as explained in the IPSASB's Basis for Conclusions accompanying IPSAS 48, the IPSASB deliberately decided to use the more specific term 'transfer provider' in IPSAS 48 while using the broader term 'resource provider' in IPSAS 47, to reflect the fact that the scope of IPSAS 47 is broader than that of IPSAS 48. That is, the scope of IPSAS 48 is limited to transfer expenses only, whereas the scope of IPSAS 47 encompasses both revenue from transfers *and* revenue from other transactions that are not transfers.

40. We consider that, in the long run, having different terms within each standard will be less confusing, once stakeholders are familiar with the terms through application of the standards.

Concern: Using the terms 'transfer provider and transfer recipient' could cause confusion – consider transferor/transferee (comment #120)

41. This comment refers to the terms 'transfer provider' and 'transfer recipient' in the proposed transfer expenses standard. One respondent noted that stakeholders think about these terms the other way around, which would cause confusion. We understand this comment to mean that if Entity A (the reporting entity) provides funds to Entity B in order for Entity B to provide services to the community, some stakeholders would think of Entity B as the 'provider' (of services) – whereas under the proposed transfer expenses standard, Entity A is the 'transfer provider' and Entity B is the 'transfer recipient'. The respondent suggests that we consider using the terms 'transferor and transferee' instead.

42. Although we acknowledge this comment, we are not persuaded that using the terms 'transferor and transferee' will be any easier for stakeholders to grasp. We also think that the term 'transfer recipient', in the context of a transfer expense transaction, can only mean the entity receiving the funds (i.e. Entity B), since the transfer provider (i.e. Entity A) does not receive any good, service or other asset in return for providing the funds.

Concern: Benefit of having three different terms – transaction consideration, stand-alone consideration and transfer consideration – is unclear, given the similarity in meaning (comment #123)

43. One respondent raised this concern. We note the following definitions of each term and in which proposed standard it appears in the table below.

Term	Proposed standard	Definition
Transaction consideration	Revenue	The amount of resources to which an entity expects to be entitled.
Transfer consideration	Transfer expenses	Represents the total amount of resources which an entity expects to transfer.
Stand-alone consideration	Transfer expenses	The amount that an entity intends to compensate the transfer recipient for satisfying each of its obligations in a binding arrangement.

44. We also note that the term 'stand-alone value' is used in the proposed revenue standard, which is the *price of a good or service that is required to be used internally, or provided separately to a purchaser or third-party beneficiary*.

45. We acknowledge the number of terms that relate to 'consideration' and the potential for confusion to arise, especially when terms appear to be similar in meaning. However, we

consider that it is appropriate to maintain 'transaction consideration' and 'transfer consideration' as different terms. Our reasons are similar to those listed in paragraph 39 (e.g. definitions would need to be slightly different across both standards and potential confusion could also arise where a reporting entity is both a recipient and provider for the same funding passed among group entities). We also consider the use of 'transaction consideration' in the proposed revenue standard vs 'transfer consideration' in the proposed transfer expenses standard reflects the broader scope of the proposed revenue standard, compared to the proposed transfer expenses standard, as noted in the IPSASB BCs.

46. We also note that 'transfer consideration' in the proposed transfer expenses standard relates to the *full amount* that the reporting entity expects to transfer in an arrangement (which may or may not be binding), whereas 'standalone consideration' relates to the compensation for *each specific obligation* in a binding arrangement. As these two terms refer to different concepts, maintaining them as two different terms is appropriate.

Concern: similarity in the terms 'compliance obligation' and 'constructive obligation' (comment #108)

47. One respondent raised this concern. We acknowledge this concern but note that the definitions for these terms are substantively different. We do not consider there to be a term that could be used across both definitions.

Recommended action on the specific concerns noted in paragraph 37 – 47 above

E	No further action required

Recommended actions to address the general concerns about new terminology

48. While our view is that stakeholders will become familiar with the terms as they continue to apply the proposed standards, we do acknowledge stakeholders may need some support when the proposed standards are initially adopted. Therefore, we propose to emphasise the terminology that is applied in each standard, and the reasons why this terminology is used, as part of the adoption and implementation support that we recommend elsewhere in agenda item 7 (and that has already been agreed by the Board in April and June 2026).

C	**Adoption and implementation support** – in line with similar recommendations agreed by the Board in April and June 2026 and recommendations made in the rest of agenda item 7.

49. Also, we note that paragraph BC33 in IPSAS 48 states that:

The IPSASB decided to use the terms 'transfer provider', 'transfer recipient', 'transfer right asset' and 'transfer obligation liability' but this Standard does not prohibit an entity from using alternative descriptions in the financial statements for those terms...

50. Footnote 9 in the proposed standard (within the Illustrative Examples section on page 45) states that *it should be noted that PBE IPSAS 48 does not prohibit a public benefit entity from using alternative descriptions in its financial statements for the terms 'transfer right asset', 'transfer obligation liability', or 'transfer expense'*. This footnote is substantively similar to footnote 6 in IPSAS 48.

51. In light of the general concerns about the new terminology, we consider that the content of paragraph BC33 and footnote 9 should be incorporated into the core text of the proposed standard as paragraph 6.1 (to be located directly after the list of definitions in paragraph 6.

> 6.1 This Standard does not prohibit an entity from using alternative descriptions in the financial statements for the terms 'transfer provider', 'transfer recipient', 'transfer right asset', 'transfer obligation liability' and 'transfer expense'.

A	Add paragraph 6.1 to the proposed standard.

Question for the Board:

Q6. Does the Board **AGREE** with the recommended actions in paragraphs 47, 48 and 51?

Use of the IPSAS 47/48 BCs in New Zealand

52. As noted in paragraph 35, one respondent suggested incorporating the BCs from IPSAS 47 and IPSAS 48 into the proposed standards. We intend to consider whether (and how) to make the IPSAS 47/48 BCs more accessible to stakeholders as a separate topic within this project, as there are potentially other areas of the IPSASB BCs which could be helpful to New Zealand stakeholders and we need to decide on the most appropriate location for these BCs, in light of the new templates for standards that we are starting to use. We will therefore bring a recommendation to the Board on this matter at a later date.

Topic 7: Difficult / challenging to understand the requirements

53. There are 7 comments relating to this topic.

Topic: Updating systems, processes and/or documentation Comments by sector and proposed standard			
	Public sector	**NFP**	**Both**
Revenue	**None**	**1 comment**	**2 comments**
Comment ref #	-	135	113, 145
Transfer expenses	**1 comment**	**None**	**2 comments**
Comment ref #	93	-	121, 158
Both	**None**	**None**	**1 comment**
Comment ref #	-	-	58

Topic: Updating systems, processes and/or documentation	
Respondent	**Number of comments**
CAANZ	1
Outreach feedback	4
Post-consultation follow-up with respondents	2
Total	**7**

Analysis and recommended actions

54. In these 7 comments, respondents note that:

    (a) Some of the guidance in the proposed revenue standard is quite 'wordy' – flowcharts would be helpful

    (b) Some of the illustrative examples in the proposed revenue standard are difficult to follow and merely refer the reader back to the core text without working through the application steps.

    (c) The language and concepts in the proposed transfer expenses standard are quite conceptual and complicated and could be hard to understand. A similar comment was also made on the proposed revenue standard.

    (d) The structure and flow of the proposed standards can feel unclear, with topics and guidance not clearly separated.

55. We acknowledge the length of the proposed revenue standard, as well as the complexity of both proposed standards. The length of the proposed revenue standard is a consequence of various factors, chief amongst them the combination of three current revenue PBE Standards. The proposed standard's complexity largely derives from its alignment with the complex for-profit standard, NZ IFRS 15 *Revenue from Contracts with Customers*. For both proposed standards, the various sections (e.g. core text, application guidance, implementation guidance, illustrative examples) are a feature of PBE Standards that have used IPSAS standards as a starting point in their development.

56. At the beginning of the PBE Revenue and Transfer Expenses projects in 2023, Board members provided feedback on the extent of drafting modifications that we should consider making to IPSAS 47 and IPSAS 48 to develop the new PBE Standards. Such modifications ranged from minor (i.e. adding guidance to assist NFP entities) to moderate (i.e. changes to the order/structure of the standard) to significant (i.e. substantial redrafting to achieve 'plain language' PBE Standard). The Board's view at the time was to maintain alignment with IPSAS – ruling out moderate to major modifications – and put a focus on providing guidance.

57. Feedback received on these consultations has warranted further consideration of certain moderate modifications (such as changes to certain terminology, bringing forward certain application guidance paragraphs, etc). However, a more fulsome change to the layout

and structure of the proposed standards and a plain language rewrite would be significant modifications that would put the standards significantly out of alignment with IPSAS 47 and IPSAS 48. This would have a negative impact on the coherence of the suite of PBE Standards and the alignment of the proposed revenue standard with NZ IFRS 15.

58. In our view, providing adoption and implementation support would be a more appropriate response to this feedback. Such adoption and implementation support could include:

    (a) Developing flowcharts and other visual aids to assist with understanding of the requirements and guidance in the proposed standards. Such tools would allow for requirements and guidance relating to the same topic (but located in various sections of the standards) to be brought together.

    (b) Promoting the use of the Standards Navigator, which would help to make the standards more accessible and user-friendly.

    (c) Emphasising the link to simple concepts, particularly in the proposed transfer expenses standard. We note that seemingly complex items such as transfer right assets and transfer obligation liabilities are essentially types of prepayments and payables. Emphasising this link to basic principles in all adoption and implementation support activities should help stakeholders grasp the requirements in the standards.

Recommended action

C	**Adoption and implementation support**

Question for the Board:

Q7. Does the Board **AGREE** with the recommended actions in Topic 7?

59. We also acknowledge the comment on the difficulty of following the illustrative examples in the proposed revenue standard and their limited usefulness. The respondent suggested that the examples could more clearly set out the accounting outcome, rather than requiring users to work back through complex sections of the standard. As noted in paragraph 13 of this memo, recommendations on any changes to existing illustrative examples, as well as additional illustrative examples to help with implementation of the proposed standards, will be presented to the Board at a future meeting.

Topic 8: Updating systems, processes and/or documentation

60. There are 5 comments relating to this topic, mostly relating to the proposed transfer expenses standard.

Topic: Updating systems, processes and/or documentation Comments by sector and proposed standard			
	Public sector	**NFP**	**Both**
Revenue	**None**	**None**	**None**
Comment ref #	-	-	-
Transfer expenses	**2 comments**	**None**	**2 comments**
Comment ref #	44, 110	-	51, 105
Both	**1 comment**	**None**	**None**
Comment ref #	45	-	-

Topic: Updating systems, processes and/or documentation	
Respondent	**Number of comments**
Auckland Council	1
CAANZ	2
Outreach feedback	1
Post-consultation follow-up with respondents	1
Total	**5**

Analysis and recommended actions

61. The feedback generally notes concerns around whether existing systems, processes and documentation are sufficient to support the proposed requirements. In particular:

    (a) New systems, controls and recipient-reporting processes may be required to track progress towards satisfaction of obligations.

    (b) Information delays from recipients could delay financial reporting.

    (c) Business managers enter into agreements and understand how counterparties are progressing, but systems are not built for this to be communicated to the finance team for accounting purposes.

62. We acknowledge the concerns about changes in systems. However, we expect that the costs of updating systems and processes would mainly arise on implementation, rather than being on-going costs, and the cost of following updated processes would decrease over time as these processes become embedded. The consultation documents acknowledge first-time implementation costs and reflect our view that we expect the long-term benefits of the proposed standards will outweigh these costs. We will re-assess cost/benefit considerations for both standards once we have completed the full feedback analysis.

63. We also note that some of the concerns on updating systems and processes relate to the application of paragraph AG39 of the proposed transfer expenses standard (relating to estimating the transfer recipient's progress towards satisfying obligations in a binding

arrangement). As discussed in agenda item 7.4, we propose to clarify in the Basis for Conclusions that this paragraph does not necessitate the creation of new systems for tracking performance if they do not already exist.

64. Therefore, to address this feedback, we consider that:

(a) An entity's implementation plan should include consideration of which systems or processes need to be updated (and how), as well as the staff that need to be involved in new processes and systems. The earlier this plan is drafted and communicated with relevant staff within the entity (and auditors), the sooner entities can start to prepare.

(b) The recommendations in agenda item 7.5, relating to the monitoring of recipient progress toward satisfaction of obligations, may help to ease the perceived burden on systems and processes.

(c) We can highlight (a) and (b) above in adoption and implementation support activities that we conduct for these proposed standards after they are issued.

Recommended action

C	Adoption and implementation support

Question for the Board:

Q8. Does the Board **AGREE** with the recommended action in Topic 8?

Topic 9: Other concerns

65. The 15 comments within this topic either relate to sub-topics:

(a) containing only one comment; or

(b) that will be fully addressed at future meetings.

Topic: Other concerns **Comments by sector and proposed standard**			
	Public sector	**NFP**	**Both**
Revenue	**5 comments**	**1 comment**	**2 comments**
Comment ref #	151, 152, 154, 155, 156	157	67, 127
Transfer expenses	**2 comments**	**None**	**4 comments**
Comment ref #	147, 148	-	48, 64, 141, 142
Both	**None**	**None**	**1 comment**
Comment ref #	-	-	66

Topic: Other concerns Respondent	Number of comments
Greater Wellington Regional Council	1
Treasury	1
Auckland Council	3
OAG	2
CAANZ	6
Post-consultation follow-up with respondents	2
Total	**15**

Analysis and recommended actions

66. Paragraphs 67-78 set out our analysis and recommended actions relating to the various sub-topics.

Approach to assessing benefits vs costs for the proposed standards

67. There are three comments from one respondent, noting that:

    (a) Field testing could provide useful information about the costs and benefits of the proposed standards. For the proposed revenue standard, the focus should be on the application of the key principles.

    (b) The costs and benefits of the proposed standards for each sector are likely to be different and should be separately considered. In particular, the cost/benefit analysis for the proposed transfer expenses standard should be more holistic to include an evaluation of user needs, information relevance, costs and practicality in both sectors.

68. In the consultation documents, we invited preparers to participate in field testing the proposed standards. Two Tier 1 public sector entities have been involved with this field testing – one entity tested the requirements in the proposed revenue standard, and the other tested the requirements in the proposed transfer expenses standard. The findings will inform the final benefits vs costs assessment prior to issuing the standards. This assessment will be performed for each proposed standard, for each sector. We expect this assessment will include the items noted by the respondent in paragraph 67(b) – i.e., user needs, information relevance, costs and practicality in both sectors.

Māori-specific considerations

69. One respondent noted that we should consider Māori organisations. The proposed standards may be particularly complex for Māori organisations, given the different ways they enter into arrangements and how they may define concepts such as obligations and enforcement. Also, there are many iwi entities that report under PBE standards or are mixed groups.

70. We acknowledge this comment and note that we reached out to several Māori organisations during the consultation period to discuss the proposals. We spoke to one such organisation, a Tier 1 mixed group, where they did not note any difficulties with applying the principles that would necessarily be unique to Māori organisations.

71. If the proposed standards are issued, we intend to continue reaching out to Māori organisations to engage with them during our implementation support events for NFP entities.

Recommended action

C	**Adoption and implementation support** – as part of the support agreed by the Board in April and June 2026 and the recommendations made in the rest of agenda item 7.

Question for the Board:

Q9. Does the Board **AGREE** with the recommended action in paragraph 71?

Additional reporting requirements

72. One respondent noted that the proposed transfer expenses standard adds an additional layer of reporting, along with service performance reporting, appropriation and funding requirements, etc. This adds to the cost of reporting.

73. We note that the proposed transfer expense standard is intended to fill a gap in PBE Standards and that there is more support for this in the public sector than in the NFP sector (see agenda item 7.3). However, the application of the proposed transfer expenses standard would replace (and in some cases, not alter significantly) the current reporting on these expenses in the financial statements, rather than adding an additional layer of reporting.

74. We have noted the costs associated with implementation and ongoing application of these proposed standards, both in this agenda item and at the April and June 2026 Board meetings. Our recommended actions to respond to those costs are intended to mitigate these costs as far as possible. We intend to continue keeping the balance between benefits to users and costs to preparers in mind as we work through the rest of the feedback on these consultations.

Recommended action

E	**No further action required**

Question for the Board:

Q10. Does the Board **AGREE** with the recommended action in paragraph 74?

Costs relating to new disclosure requirements

75. There are seven comments from four public sector respondents on costs relating to the costs associated with disclosure requirements in the proposed standards:

    (a) Respondents note that the proposed revenue disclosure requirements are significantly more detailed than current requirements and seem to be excessive. Producing the required level of disclosure may be substantial and onerous.

    (b) Respondents note that the proposed transfer expenses disclosure requirements may be burdensome for large organisations managing diverse programmes, creating significant operational effort. The addition of lengthy disclosures for material transfers without binding arrangements would substantially add to the cost and clutter of the financial statements.

76. We note these concerns in this agenda item for the purpose of providing the Board with a complete picture of the feedback on costs. However, we intend to address this feedback, alongside other comments received on the proposed disclosure requirements, as a separate topic at a future meeting.

Costs relating to transitional provisions

77. There are three comments from one respondent on costs relating to the transitional provisions in both proposed standards.

    (a) The nature of the transitional provisions in the proposed revenue standard may challenge smaller Tier 2 PBEs. Applying the transitional provisions would also be time consuming and complex.

    (b) Applying the retrospective application transition option in the proposed transfer expenses standard could be a resource-intensive (and therefore costly) exercise initially.

78. We note these concerns in this agenda item for the purpose of providing the Board with a complete picture of the feedback on costs. However, we intend to address this feedback, alongside other comments received on transition, as a separate topic at a future meeting.

Next steps

79. We have now concluded most of our assessment of the feedback relating to the costs of adopting the proposed standards. As noted in this memo, some of the feedback on benefits and costs will be addressed as part of other topics at future meetings. These topics include:

    (a) Transition and mandatory date

    (b) Presentation and disclosure (including RDR concessions)

80. We will also consider those comments relating to amendments or additions to illustrative examples as part of our review of those examples. We will bring recommendations on any amendments or additions to a future meeting.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB paper- PBE Standards- Revenue

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue: Cover memo - Analysis of stakeholder feedback on the proposed requirements for revenue with and without binding arrangements**
Date:	11 November 2026
Prepared by:	Gali Slyuzberg
Through:	Carly Berry; Michelle Lombaard

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

Purpose and introduction

1. This cover memo relates to agenda items 8.2–8.4. The purpose of these agenda items is to analyse the feedback received from stakeholders ('respondents') on the proposed accounting requirements for revenue arising from transactions with and/or without binding arrangements ('the accounting models') in ED PBE IPSAS 47 *Revenue* ('the proposed standard'). This cover memo provides an overview of the feedback analysed in agenda items 8.2–8.4 and the process we followed to analyse the stakeholder feedback.
2. These paper covers respondents' feedback to Questions 3 and 4 of the consultation document accompanying the proposed standard, i.e. the questions on the accounting model for revenue with and without binding arrangements – as well as feedback on other questions that relate to one or both accounting models.

Structure of this agenda item

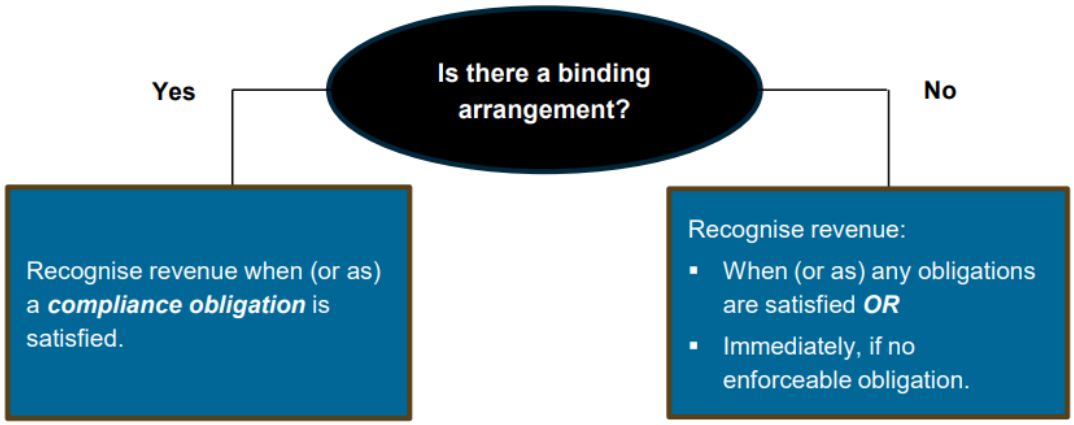
3. This memo contains the following sections:
   (a) Overview of the revenue accounting models
   (b) Feedback included in the analysis
   (c) Process followed to analyse stakeholder feedback

Overview of the revenue accounting models

4. The accounting for revenue is determined by whether there is a binding arrangement. As a reminder: A **binding arrangement** is an *arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement*[1].

[1] For a further overview of the binding arrangement principle, please refer to pages 33 – 34 of the April 2026 NZASB public board pack.

5. The diagram below provides an overview of the two revenue accounting models.



Feedback included in the analysis

6. We identified 70 comments from respondents relating to the accounting models. The comments largely relate to the following consultation questions (CQs):

   (a) **CQ 3** – concerning revenue recognition for transactions **without** binding arrangements.

   (b) **CQ 4** – concerning revenue recognition for transactions **with** binding arrangements.

7. CQs 3 and 4 specifically relate to **recognition**. However, for ease of analysis, we have allocated comments relating to **measurement** of revenue transactions to these CQs as well.

8. We have also included responses to other CQs in the analysis, where they relate to recognition and measurement of revenue. Comments relating to other aspects of the accounting models (e.g. presentation and disclosure) will be addressed separately at a future meeting.

Process followed to analyse stakeholder feedback

9. The analysis is split into four parts, with each part further segmented into topics, as follows:

Table 1 – 69 comments grouped according to subject matter

Topic	Number of comments	Agenda item
Part A: Revenue without binding arrangements	**22**	8.2
Topic A1: Comments indicating support/benefits	5	
Topic A2: Challenges – tax revenue and other compulsory contributions without binding arrangements	7	
Topic A3: Challenges – timing of revenue recognition	7	
Topic A4: Challenges – measurement of liabilities	2	

Topic	Number of comments	Agenda item
Topic A5: Other comments on revenue without binding arrangements	1	
Part B: Revenue with binding arrangements	**25**	8.3
Topic B1: Comments indicating support/benefits	7	
Topic B2: General comments on potential costs/concerns	4	
Topic B3: Challenges relating to compliance obligations	9	
Topic B4: Other comments on revenue with binding arrangements	5	
Part C: Revenue from specific transactions - may be with or without binding arrangements	**16**	8.4
Topic C1: Multi-year grants	2	
Topic C2: Capital grants	2	
Topic C3: Appropriations	5	
Topic C4: Council levies and charges	3	
Topic C5: Other specific transactions	4	
Part D: Other comments on revenue with or without binding arrangements	**6**	8.4
Topic D1: Principal vs agent	2	
Topic D2: Lack of clarity on rights and obligations in public sector arrangements	2	
Topic D3: Other comments on revenue with and without binding arrangements	2	
Total	**69**	

Note:

- *A single comment from a stakeholder may be split among two or more topics.*
- *A respondent may have made several comments relating to the same topic.*

Table 2 – Options for recommended actions

A	Addition/amendment to **authoritative text** within the proposed standard (i.e. core text or Application Guidance paragraphs)
B	Addition/amendment to **non-authoritative text** within the proposed standard (i.e. Implementation Guidance paragraphs, illustrative examples, Basis for Conclusion paragraphs)
C	Adoption and implementation support
D	Refer to the IPSASB Application Group
E	No further action required

10. Agenda Item 8.5 (Board-only paper) sets out all the comments received on the proposed requirements for revenue with and without binding arrangements, with each given a unique number for reference purposes.

11. The results of the field testing with a public sector participant are included in Agenda Item 8.6 (Board-only paper). None of those findings affect the analysis and recommendations presented in this agenda item.

Next steps (all papers in agenda item 8)

12. At a future meeting, we plan to discuss with the Board feedback relating to the following aspects of the proposed standard:

    (a) Presentation and disclosure;

    (b) Transition;

    (c) Illustrative Examples – consideration of amendments to make the examples more NZ-specific; and

    (d) Any 'sweep issues' arising from Board discussions at this meeting and/or previously.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Revenue

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue: Analysis of stakeholder feedback on the proposed requirements for revenue from transactions without binding arrangements**
Date:	11 November 2026
Prepared by:	Gali Slyuzberg
Through:	Carly Berry; Michelle Lombaard

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

Purpose[1]

1. The purpose of this agenda item is to analyse the feedback received from stakeholders ('respondents') on the proposed accounting requirements for revenue arising from transactions *without* binding arrangements in ED PBE IPSAS 47 *Revenue* ('the proposed standard').

2. This agenda item covers respondents' feedback to Consultation Questions 3 – i.e. the questions on the accounting model for revenue without binding arrangements – as well as feedback on other questions that relate to this proposed accounting model.

3. The analysis of feedback on the proposed accounting model for revenue transactions with binding arrangements is in Agenda Item 8.3. The analysis of other feedback on the proposed accounting requirements for revenue, including feedback relating to specific transactions that may be with or without a binding arrangement, is in Agenda Item 8.4.

Recommendations

4. We recommend that the Board **AGREES** with our recommended actions in response to respondents' feedback.

Summary of recommended actions

5. We recommend the following actions in relation to the feedback received:

Recommendation type (see agenda item 8.1)		Recommendation/related feedback
A	Addition/amendment to **authoritative text** within the proposed standard	Amend paragraph 29(a) for consistency with paragraph 29(b) – to clarify that in transactions without binding arrangements, revenue is deferred only when the entity has *enforceable* obligations that meet the definition of a liability.

[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).

Recommendation type (see agenda item 8.1)		Recommendation/related feedback
D	Refer to the IPSASB Application Group (IAG)/ wait for IPSASB decisions in relation to matters referred to IAG	*Wait for IPSASB decisions regarding comments on:* • Measurement of tax revenue and of the related receivable at initial recognition • Questions and concerns about the proposed requirement to apply IPSAS 41 'by analogy' to tax receivables and other statutory receivables • Question on the constraint on the recognition of tax revenue and tax receivables that are subject to uncertainty • Whether the measurement of tax revenue considers the time value of money
E	No further action	• Comments indicating support/benefits • Timing of the 'taxable event' for a levy invoiced in advance based on expected expenditure for the year • Questions on whether certain obligations that are not enforceable should still result in the deferral of revenue in transactions without binding arrangements. • Request for more guidance on the measurement of a liability and comment on potential inconsistency in the ED on this topic. • Question on measuring a liability from a revenue transaction without a binding arrangement when unspent funds do not need to be returned. • Lack of guidance on accounting for resources received for internal use in transactions without a binding arrangement

Structure of this agenda item

6. This memo contains the following sections:

(a) Process followed to analyse stakeholder feedback

(b) Part A: Revenue without binding arrangements

i. Topic A1: Comments indicating support/benefits

ii. Topic A2: Challenges – tax revenue and other compulsory contributions without binding arrangements

iii. Topic A3: Challenges – timing of revenue recognition when obligations exist

iv. Topic A4: Challenges – measurement of liabilities

v. Topic A5: Other comments on revenue without binding arrangements

Process followed to analyse stakeholder feedback

7. Refer to Agenda Item 8.1. An extract of Table 1 from that agenda item is set out below:

Topic	Number of comments	Paragraph ref
Part A: Revenue without binding arrangements		
Topic A1: Comments indicating support/benefits	5	11-14
Topic A2: Challenges – tax revenue and other compulsory contributions without binding arrangements	7	15-44
Topic A3: Challenges – timing of revenue recognition	7	45-83
Topic A4: Challenges – measurement of liabilities	2	84-86
Topic A5: Other comments on revenue without binding arrangements	1	87-91
Total	**22**	

8. Agenda item 8.5 (Board-only paper) sets out all the comments received on the proposed requirements for revenue with and without binding arrangements, with each given a unique number for reference purposes.

Part A: Revenue without binding arrangements

9. As reminder, a summary of the proposed requirements for revenue transactions without binding arrangements in the proposed standard is included below:

   (a) When an entity recognises an inflow of resources as an asset, revenue is recognised:

      (i) As or when an entity satisfies obligations associated with the inflow of resources that meet the definition of a liability; or

      (ii) Immediately if the entity does not have enforceable obligations associated with the inflow of resources.

   (b) Revenue is measured at the amount of the increase in the entity's net assets, i.e. the consideration received or receivable.

   (c) Within the requirements for revenue without binding arrangements, there are specific requirements for taxes, levies and other compulsory contributions.

10. The sections that follow include further detail on the proposed requirements for revenue without binding arrangements, as relevant to each specific topic raised by stakeholders.

Topic A1: Comments indicating support/benefits

11. We identified 5 comments indicating general support for, or highlighting the benefits of, the proposed accounting model for revenue from transactions without binding arrangements. In some cases, the support was qualified by specific concerns (which are analysed separately in the related sections of these papers).

Topic: Comments indicating support/benefits Comments by sector		
Public sector	**Not-for-profit**	**Both**
1	0	4
(Comment #4)[2]	*N/A*	*(Comments #1, 2, 3, 5)*

Topic: Comments indicating support/benefits	
Respondent	**Number of comments**
CAANZ	1
Audit Office	1
Outreach feedback	3
Total	**5**

Analysis

12. Three of the 5 comments specifically supported the proposal to allow entities to defer revenue from transactions without a binding arrangement in specified circumstances (i.e. when the definition of a liability is met).

13. One comment noted that the proposed requirements for revenue without binding arrangements simplify accounting from non-exchange transactions and are sensible. Another comment noted that both models for revenue with and without binding arrangements are relatively straightforward, and while there would be 'teething issues', these are not insurmountable.

Recommended action

14. As the comments are supportive, no further action is required.

E	No further action required

Topic A2: Challenges – tax revenue and other compulsory contributions without binding arrangements

15. As explained in paragraph 41 of the proposed standard, tax revenue is revenue without a binding arrangement, as the government is not required to transfer distinct goods or services to the taxpayer or third-party beneficiary in return for the tax payment. While the taxpayer benefits from a range of government policies funded by taxes, the taxpayer has no control as to which specific benefits they receive as a result of paying taxes. Similar considerations apply to other types of compulsory contributions.

16. In addition to requirements on the recognition and measurement of revenue without binding arrangements in general, the proposed standard also includes specific

[2] The comment reference numbers refer to the detailed list of comments in Agenda Item 8.5, which is available to NZASB members.

requirements for the recognition and measurement of tax revenue and related assets (receivables).

17. We identified 7 comments about challenges relating to accounting for tax revenue and the related receivables, and other compulsory contributions without binding arrangements.

18. Please note: While the proposed standard discusses levies together with taxes and other compulsory contributions, some feedback that we received relates to levies that are charged for a specific service or infrastructure that the levy payer potentially directly benefits from, where it is not immediately clear whether these could be subject to a binding arrangement. We have therefore categorised questions about such levies under 'specific transactions' (discussed in agenda item 8.4), rather than under 'revenue without binding arrangements'.

Topic: Challenges – tax revenue and other compulsory contributions without binding arrangements Comments by sector		
Public sector	**Not-for-profit**	**Both**
7	0	0
(Comment #6, 7, 8, 9, 10, 11, 12)	*N/A*	*N/A*

Topic: Challenges – tax revenue and other compulsory contributions without binding arrangements	
Respondent	**Number of comments**
Treasury	2
Inland Revenue	3
Audit Office	1
Outreach feedback	1
Total	**7**

Analysis

19. Of the 7 comments on taxes and other compulsory contributions:

    (a) Two question whether tax revenue and related receivables are measured on initial recognition at the amount to which the government is entitled ('transaction consideration'), or at the 'best estimate of the inflow of resources', which may not be the same *(Comments #6 and 8)* **[Theme 1]**;

    (b) Three contain questions and concerns about the proposed requirement to apply IPSAS 41 *Financial Instruments* 'by analogy' to tax receivables and other statutory receivables *(Comments #7, 9, 10)* **[Theme 2]**;

    (c) One includes a question on the constraint on the recognition of tax revenue and tax receivables that are subject to uncertainty, whereby measurement is "limited to the extent that it is highly probable that a significant reversal of the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved" *(Comment #11)* **[Theme 3]**;

(d) One questions whether the measurement of tax revenue takes into account the time value of money *(Comment #11)* **[Theme 4]**; and

(e) One is a question on the timing of the 'taxable event' for a levy that is invoiced in advance based on expected expenditure for the year, with a year-end adjustment once expenditure becomes known *(Comment #12)* **[Theme 5].**

Each theme is analysed further below.

20. Please note: Themes 2–4 were covered in our submission to the IPSASB Application Group (IAG) (see pages 51-57 in the June 2026 NZASB public papers). Theme 1 was not explicitly covered in our IAG submission but is related to one of the matters in the submission (applying IPSAS 41 to tax receivables 'by analogy' – in terms of the interaction between the tax-specific measurement requirements in IPSAS 47 and the requirements in IPSAS 41).

Theme 1: Measurement of tax revenue and related receivable on initial recognition

Matters raised by stakeholders

21. Two respondents in the public sector (*comments #6 and 8*) noted that it is not clear whether the measurement of tax revenue and the measurement of the related receivable at initial recognition reflects the full tax amount that the government expects to be entitled to, or whether it takes into account expectations relating to collectability. They noted the following:

(a) Paragraphs 30 and 4 in the proposed standard (which applies to all revenue without binding arrangements) require tax revenue and the related receivable to be recognised at the *transaction consideration*, being "the amount of resource to which the entity is expected to be entitled". This implies that tax revenue should be recognised at the 'face value' of the estimated and/or assessed tax revenue amount (i.e. the amount to which the government is expected to be entitled legally).

(b) However, paragraph 45 implies that the measurement of tax revenue on initial recognition is more akin to fair value, taking into account the probability that the inflows of estimated/assessed tax amounts will eventuate and the best estimate of what the government expects to receive. *This is not necessarily the same as the amount that the government is entitled to*.

22. The respondents asked to clarify this potential inconsistency between (a) and (b) above.

Staff analysis

23. We agree with stakeholders that there is an inconsistency between sub-paragraphs (a) and (b) above. We consider that the key difference between the two sets of requirements is whether expected non-collection of tax due to credit risk is taken into account for the purpose of revenue recognition, as shown below.

Table 1 Staff analysis – Topic A2, Theme 1

Paragraph in ED PBE IPSAS 47	Implications
Paragraph 30 [for all revenue transactions without binding arrangements]: "An inflow of resources or a right to an inflow of resources that meets the definition of an asset shall initially be measured by the entity at its transaction consideration as at the date at which the criteria for asset recognition are satisfied". Paragraph 4: Transaction consideration is defined in paragraph 4 as "the amount of resources to which an entity is expected to be entitled".	**View 1:** The reference to 'transaction consideration', imply that *credit risk is not considered when recognising revenue* (including when revenue is adjusted due to changes in estimates), and when measuring the tax receivable at initial recognition. After initial recognition, the tax receivable would subsequently be impaired for expected non-collection due to credit risk (under PBE IPSAS 41 *Financial Instruments*) – and this impairment for expected credit loss would not impact the tax revenue amount and would be presented as a separate expense
Paragraph 45 says: "Assets arising from taxation transactions are measured at the best estimate of the inflow of resources to the entity, which is consistent with the most likely amount (i.e., the single most likely amount or outcome in a range of possible consideration amounts). The accounting policies for estimating these assets will take account of both the probability that the resources arising from taxation transactions will flow to the government, and the fair value of the resultant assets."	**View 2:** The reference to 'best estimate of expected inflow of resources' and 'fair value', implies that *credit risk is taken into account when recognising tax revenue* and when measuring tax receivable at initial recognition. This means that the *tax revenue amount is recognised net of expected non-collection due to credit risk*, and the same applies to measuring the tax receivable at initial recognition. After initial recognition, the tax receivable is accounted for under PBE IPSAS 41, which would imply that expected credit losses that were not already reflected in the amount of the receivable at initial recognition would be presented as a separate impairment expense. However, in this case there is lack of clarity as to the boundary between the proposed standard and PBE IPSAS 41, particularly regarding estimated pre-assessment tax receivables, which we have raised with the IAG. Please see the next section of this memo.

24. While the tax receivable balance and the net surplus/deficit amount would ultimately be the same under both View 1 and View 2 above, the revenue amount would be different. We therefore consider it important to resolve the inconsistency raised by respondents.

25. We also note that for revenue transaction *with* binding arrangements, paragraph 108 requires entities to recognise revenue at "the amount of the *transaction consideration*", being the amount of resources to which an entity expects to be entitled, and determining this amount may involve estimation due to variable consideration – but paragraphs 110 clearly states that "*credit risk is not considered* when determining the amount the entity

expects to be entitled to. Impairment losses relating to a credit risk (that is, impairment of a receivable) are measured based on the guidance in PBE IPSAS 41". Thus, for transactions *with* a binding arrangement, it is clear that credit risk is *not* taken into account when recognising revenue amount and when measuring the related asset at initial recognition. However, there is no equivalent to paragraph 110 for revenue transactions without binding arrangements, and as noted above, it is not clear whether non-collection due to credit risk is taken into account when recognising tax revenue.

Expected consideration by the IPSASB

26. While this matter was not specifically raised in our submission to the IAG, it is related to our questions to the IAG on the interaction between the measurement requirements for tax revenue and tax receivable in IPSAS 47 and the requirements in IPSAS 41 *Financial Instruments*. The inconsistency between the requirements relating to 'transaction consideration' and legal entitlement vs 'best estimate of expected inflow of resources' and fair value was raised at the IPSASB September 2026 meeting when our IAG submission was discussed. As a result, the IPSASB may consider changes to IPSAS 47 that may address the matter discussed in this section (together with the matters specifically raised in our IAG submission – see the section on Themes 2–4 below for more information). We understand that IPSASB staff plan to bring proposals to the IPSASB in this area in March 2027.

Discussion with IPSASB staff

27. IPSASB staff are in the process of considering the matter discussed in this section, together with the related matters that we raised in our submission to the IAG.

28. In our preliminary discussion with IPSASB staff, the concept of a *price concession* from the requirements for revenue with binding arrangements was brought up – and whether similar thinking could be applied to tax that the government is entitled to but may not collect.

29. Under IPSAS 47 and the proposed standard, revenue from transactions *with* binding arrangements is recognised net of price concessions, as noted in paragraph AG37 below.

> "AG37. This Standard typically measures revenue based on the transaction consideration to which an entity expects to be entitled rather than the amount that it expects to ultimately collect. Revenue is adjusted for discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items, but it is not reduced for impairment losses. However, where an entity is providing goods or services and accepts a lower amount of consideration from the resource provider than the price stated in the binding arrangement, the acceptance of the lower amount of consideration represents an implicit price concession.

30. However, the question is whether tax amounts that the government is entitled to but that may not be collectible due to taxpayers failing to pay is sufficiently similar to a price concession. We expect to hear more from IPSASB staff on this matter.

Recommended action

31. In our view, addressing the matter above would require changes to the authoritative text of the proposed standard – because the inconsistency between the term 'transaction consideration' on one hand and the reference to 'best estimate of the inflow of resources' and the 'fair value' of the asset recognised on the other hand is in the core text.

32. We acknowledge that the NZASB can amend IPSAS when developing PBE Standards, as per the PBE Policy Approach. However, in the case of non-NFP-specific changes to the core text of a PBE Standard based on IPSAS – particularly with respect to key requirements in the standard, such as the accounting for tax in ED PBE IPSAS 47 – we consider that it would be preferable if the IPSASB amends the related IPSAS at an international level, rather than us developing NZ-specific amendments to the core text. The further a New Zealand PBE departs from the IPSAS it is based on, the more challenging it would be avail ourselves of the IPSASB's new and upcoming implementation support initiatives, such as the IAG and the upcoming 'IPSASB Explains' initiative. There is also a risk of unintended consequences when making domestic amendments to IPSAS-based core text of a PBE Standard.

33. Therefore, we recommend waiting to see what changes (if any) the IPSASB proposes to make to IPSAS 47 before finalising amendments to the authoritative text of the proposed standard in relation to the matter discussed in this section. As noted above, IPSASB staff indicated an intention to discuss this matter with the IPSASB in March 2027. We consider that it is reasonable to wait for the IPSASB to confirm its course of action on this topic, noting that many jurisdictions are yet to start implementing IPSAS 47.

Questions for the Board:

Q1. Does the Board **AGREE** with the recommendation in paragraph 33 of this memo?

Q2. Does the Board have any **FEEDBACK** on this topic?

Themes 2–4: Matters raised with the IPSASB Application Group – measurement of tax revenue and related receivable

34. Themes 2–4 cover questions on applying IPSAS 41 'by analogy' to the subsequent measurement of tax receivable, the collection uncertainty constraint for tax revenue recognition, and the time value of money. These topics have already been discussed with the NZASB at the April and June 2026 meetings, and the NZASB agreed to refer these matters to the IPSASB Application Group (IAG). As such, we have not provided detailed background information in this memo on these matters. See the June 2026 NZASB papers (pages 33–57) for more information on the background of these matters.

35. A submission to the IAG was made in June 2026. The content of the submission is on pages 51–57 of the June 2026 NZASB papers.

36. The IAG responded to our submission in Agenda Item 11 of the IPSASB September meeting (see Agenda Item 11.A2 and 11.A4). While the IAG initially recommended no standard-setting action in response to the matters in our submission, at the IPSASB

September 2026 meeting the IPSASB asked its staff to reconsider whether changes to IPSAS may be needed. We understand that IPSASB staff expect to bring proposals to the IPSASB on these matters in March 2027.

Recommended action

37. The intention behind the NZASB's submission to the IAG was to have the matters raised in the submission be resolved by the IPSASB at an international level, rather than developing a New Zealand solution independently. Therefore, we propose to wait for the IPSASB's decision on whether and how to amend IPSAS 47 (at least until we know the general direction of the proposed amendments), and for IPSASB staff to indicate the content of the related educational material, before deciding on whether and how to amend the authoritative text and/or non-authoritative text of draft PBE IPSAS 47 in relation to the matters covered in this section. We understand that IPSASB staff plan to bring recommendations on proposed amendment to the IPSASB in March 2027.

Question for the Board:

Q3. Does the Board **AGREE** with the recommendation in paragraph 37 of this memo?

Theme 5: Timing of the 'taxable event' for a levy invoiced in advance based on estimated amount with an adjustment at year-end

Description of matter raised

38. Paragraph 36 of the proposed standard says: "An entity shall recognise an asset in respect of taxes, which include other compulsory contributions and levies, *when the taxable event, or other event giving rise to other compulsory contributions and levies, occurs and the asset recognition criteria are met*."

39. In discussing revenue without binding arrangements, a public sector stakeholder noted a situation where a levy is invoiced in advance based on the levy payer's expected expenditure for the year, and the levy is then adjusted at the end of the year once the levy payer's actual expenditure is known. The stakeholder asked at what point does the taxable event occur under the proposed standard in such a situation, and therefore at what time is revenue recognised. That is, does the taxable event occurs when the levy is invoiced, or as the levy payer incurs the expenditure? *(Comment #12)*

Staff analysis

40. Paragraph 4 of the proposed standard defines 'taxable event' as "*the event that the government, legislature, or other authority has determined will be subject to taxation*". If a levy is calculated as, say, a percentage of expenditure incurred by the levy payer during the year, it seems that the event subject to taxation (levy) is the levy payer incurring expenditure during the year.

41. We also note that paragraph 43 says the following about the 'triggering event for taxes and other compulsory contribution levies':

"Similar types of other compulsory contributions and levies occur in many jurisdictions. The entity analyses the law and/or regulation relating to other compulsory contributions and levies in its own jurisdiction to determine what event the government, legislature, or other authority has determined will result in the other compulsory contribution or levy. Examples of such events include:

(a) Income being earned (where other compulsory contributions are based on earnings, for example other compulsory contributions in respect of unemployment benefits which are based on a percentage of earned income);

(b) The passage of time (where other compulsory contributions to a social benefit are based on time, for example monthly payments); and

(c) The purchase of goods or services (where levies are based on a percentage of sales, for example where accident benefit schemes impose a levy on fuel sales)."

42. A levy based on expenditure (as described by the stakeholder) seems to be similar in nature to the examples in paragraph 43(a) and 43(c) in the proposed standard, and these paragraphs should be relevant in addressing the stakeholder's query.

Recommended action

43. We consider that the requirements and guidance in paragraphs 4, 36 and 43 of the proposed standard are sufficiently clear for determining the timing of the taxable event and therefore the timing of revenue recognition for levies that are without binding arrangements. We do not consider that changes to the authoritative or non-authoritative text of the standard is required. The topic of 'taxable event' also does not seem to be a common topic for questions or concerns among respondents, so we do not consider that specific implementation support on this is needed.

E	No further action required

44. Please also see the discussion on levies in Agenda Item 8.4 (specific transactions).

Question for the Board:

Q4. Does the Board **AGREE** with the recommendation in paragraph 43 of this memo?

Topic A3: Challenges – timing of revenue recognition when obligations exist

45. Paragraph 29 of the proposed standard says that "An entity shall recognise revenue from a transaction without a binding arrangement:

(a) When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or

(b) Immediately if the entity does not have an enforceable obligation associated with the inflow of resources."

46. We identified 7 comments about challenges relating to the timing of revenue recognition in transactions without binding arrangements where an obligation exists.

Topic: Challenges – timing of revenue recognition when obligations exist **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
5	0	2
Comments #13, 14, 16, 18, 19	*N/A*	*Comments #17, 21*

Topic: Challenges – timing of revenue recognition when obligations exist	
Respondent	**Number of comments**
Audit Office	1
CAANZ	2
Auckland Council	1
Outreach feedback	3
Total	**7**

Analysis

47. Of the 7 comments:

(a) Two relate to questions on the difference between 'obligations [...] that meet the definition of a liability' and 'enforceable obligations' in paragraph 29 of the proposed standard *(Comments #13, 17)* **[Theme 1]**;

(b) Two raise questions on whether certain obligations that are not enforceable should still result in the deferral of revenue in transactions without binding arrangements *(Comments #14, 16)* **[Theme 2]**; and

(c) Three request further guidance and/or examples on transactions without binding arrangements where revenue recognition is deferred – specifically, when to recognise a liability, and what is meant by "when or as" an obligation is satisfied in the context of revenue recognition *(Comments #18, 19, 21)* **[Theme 3]**.

Each theme is analysed in more detail below.

Theme 1: Questions on the difference between 'obligations [...] that meet the definition of a liability' and 'enforceable obligations' in paragraph 29

Description of matter raised

48. Two respondents (one operating across sectors and one from the public sector - *Comments #13 and 17*) noted an inconsistency in the terms used within the revenue recognition requirements in paragraph 29, i.e. one 'leg' of the requirements refers to 'obligations [...] that meet the definition of a liability', while the other refers to 'enforceable obligations' – as shown below.

> "29. [...] An entity shall recognise revenue from a transaction without a binding arrangement:
>
> (a) When (or as) the entity satisfies any obligations associated with the inflow of resources that meet the definition of a liability; or
>
> (b) Immediately if the entity does not have an enforceable obligation associated with the inflow of resources"

49. The respondents noted the following:

    (a) There is confusion as to whether there is a distinction between 'obligation' and 'enforceable obligation' in paragraph 29, and what is the distinction. This confusion is compounded by the lack of implementation guidance and illustrative examples focusing on revenue from transactions without binding arrangements.

    (b) A respondent asked what could be an example of a non-enforceable obligation that results in revenue being recognised 'when (or as) the entity satisfies its obligations' per paragraph 29(a).

Staff analysis

50. We agree with the respondents that the use of the terms 'obligations [...] that meets the definition of a liability' and 'enforceable obligations' in different parts of paragraph 29 could cause confusion.

51. We consider that the crux of this issue relates to obligations that are not enforceable but meet the definition (and recognition criteria) of a liability, i.e. **constructive obligations** – and how to recognise revenue when such obligations exist in a transaction without a binding arrangement.

52. The PBE Conceptual Framework, as amended by the 2024 *PBE Conceptual Framework Update (Amendments to Chapter 3 Qualitative Characteristics and Chapter 5 Elements in General Purpose Financial Reports)*, defines a liability as "a present obligation of the entity to transfer resources as a result of past events".

53. We note that the PBE Conceptual Framework (as amended by the 2024 *PBE Conceptual Framework Update*) distinguishes between two types of obligations as part of the guidance on the definition of a liability:

    (a) **Legal obligations** that are **enforceable** by law, or enforceable through alternative arrangements with an equivalent effect to legal enforceability (e.g. in jurisdictions where public sector entities are not permitted to contract in their own right) *[PBE Conceptual Framework, paragraph 15C]*; and

    (b) **Non-legally-binding obligations** that can give rise to the liability in certain circumstances, i.e. when the entity has created a valid expectation that it accepts and will discharge certain responsibilities and it has no realistic alternative to avoid settling the obligation arising from those responsibilities *[PBE Conceptual Framework, para 5.15F]*. This is consistent with the definition of a '**constructive obligation**' in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

54. Both obligations that are enforceable through legal or equivalent means, and constructive obligations that are not enforceable in this manner, can meet the definition of a liability under the PBE Conceptual Framework, and are recognised as a liability if they meet the recognition criteria in the relevant PBE Standards.

55. With this in mind, the terminology in paragraph 29 can cause confusion as follows:

    (a) The term "obligations [...] that meet the definition of a liability" in paragraph 29(a) could be read to include *both enforceable obligations* (i.e. obligations enforceable by legal or equivalent means), and *constructive obligations* that are not enforceable but that meet the definition of a liability.

    (b) In a revenue transaction without a binding arrangement, an entity might have *no enforceable obligations* (i.e. no obligations that are enforceable through legal or equivalent means), but it might have a *constructive obligation* associated with the inflow of resources that *meets the definition (and recognition criteria) of a liability*. In this situation, under the interpretation above, paragraphs 29(a) and 29(b) seem to point towards different accounting outcomes for the same transaction: **Paragraph 29(a)** would require the entity to **recognise revenue as or when the constructive obligation is satisfied** – but **paragraph 29(b)** would require the entity to **recognise revenue immediately, disregarding the constructive obligation**.

56. We acknowledge that the potential confusion would arise only in situations where the entity has no enforceable obligations but has a constructive obligation that meets the definition of a liability in a revenue transaction without binding arrangements, which may be a relatively narrow set of circumstances. However, in our view the matter warrants further consideration and clarification.

57. In considering how to resolve this matter, we have considered other authoritative paragraphs in the proposed standard, as well as the IPSASB BC paragraphs, and we have discussed this matter with IPSASB staff. The aim of these considerations and discussion was:

    (a) To understand the IPSASB's intent, i.e. whether the IPSASB intended to allow deferral of revenue in transactions without binding arrangements only if the entity has enforceable obligations, or also when the entity has a constructive obligation; and

    (b) To clarify this matter to New Zealand stakeholders.

<u>Consideration of other authoritative paragraphs in the proposed standard</u>

58. In the section on the <u>recognition of a liability</u>, paragraphs 26–28 seem to refer to the *general definition and recognition criteria of a liability*, e.g. there needs to be a present obligation resulting from a past event, the entity must not be able to avoid a transfer of resources, etc. However, paragraph 27 specifies that the entity should "*determine whether an obligation is enforceable*", but this is the only reference to 'enforceable obligations' in this section. The relevant paragraphs are shown below.

Recognition

17. An entity's revenue transaction without a binding arrangement may confer rights and/or obligations. Any entity shall determine if:

[...]

(c) Any of its obligations in its revenue transaction without binding arrangements meet the definition of a liability in accordance with paragraphs 26–27.

Existence and Recognition of a Liability

26. An entity may have an obligation associated with the inflow of resources as a result of entering into a revenue transaction without a binding arrangement. The obligation meets the definition of a liability when it is a present obligation of the entity to transfer resources as a result of past events.

27. For a liability to exist, it is necessary that the entity cannot avoid a transfer of resources as a consequence of past events, and that the transfer of resources is probable. An entity should consider the facts and circumstances relating to the revenue transaction to determine if the obligation is enforceable and requires an incremental transfer of resources if the entity does not satisfy its obligation(s).

28. An obligation that meets the definition of a liability shall be recognised as a liability when, and only when, the amount of the obligation can be measured reliably.

59. It could be argued that the reference to determining whether the obligation is enforceable in paragraph 27 points towards the view that *only enforceable obligations lead to the deferral of revenue in transactions without binding arrangements*, especially if taken together with paragraphs 29(a) and 29(b). However, this is not explicitly stated.

Consideration of non-authoritative Implementation Guidance paragraphs

60. Implementation Guidance (IG) paragraph C.1 in the proposed standard and in IPSAS 47 says the following (in the context of recognising revenue from various types of taxes): "An entity recognises revenue from a transaction without binding arrangements when it receives or has the right to receive an inflow of resources that meets the definition of an asset (paragraphs 18–25), and there are no unsatisfied enforceable obligations associated with those resources (paragraph 29)".

61. This IG paragraph points towards the view that *only enforceable obligations lead to the deferral of revenue in transactions without binding arrangements*. However, this is a non-authoritative paragraph.

Consideration of the IPSASB BC accompanying IPSAS 47

62. Our considerations of the IPSASB BC are included below.

IPSASB BC paragraphs supporting the view that...	
Both enforceable obligations and constructive obligations that meet the *definition of a liability* lead to deferral of revenue in transactions without binding arrangements	*Only enforceable obligations* lead to deferral of revenue in transactions without binding arrangements
Paragraph BC65 lists different types of rights and obligations than an entity might have in a transaction without binding arrangements – including enforceable obligations or unenforceable obligations (and enforceable or unenforceable rights). Paragraph BC66 says that the IPSASB included explicit guidance in IPSAS 47 to "prompt an entity to consider whether any of its rights or obligations in the transaction may meet the definition of an asset or liability, respectively, in accordance with the Conceptual Framework". These paragraphs seem to imply that in revenue transaction without binding arrangements, obligations are recognised as a liability if they meet the definition (and recognition criteria) of a liability per the Conceptual Framework, regardless of whether the obligation is enforceable (through legal or equivalent means) or a constructive obligation that is not enforceable but which meets the definition (and recognition criteria) of a liability.	The IPSASB BC explains how the IPSASB moved from its original proposal of having two revenue standards – one referring to performance obligations and the other referring to present obligations in the context of deferring revenue – to a single revenue standard. In this context, paragraph BC 27 says the following: "When considering how to clarify accounting guidance, the IPSASB noted that the concept of a "present obligation" in the revenue context is narrower than in the Conceptual Framework. A present obligation is a unit of account in revenue accounting, and is a legally binding obligation in a binding arrangement to use resources in compliance with the terms of the binding arrangement. Present obligations in the Conceptual Framework are legally or non-legally binding obligations, and are used more generally to describe an entity's obligations. A term other than "present obligation" would more clearly describe and define the concept for revenue accounting purposes." Paragraph 29(a) requires revenue to be deferred when the entity has obligations that meet the definition of a liability, and paragraph 26 says that an obligation must be a 'present obligation' to meet the definition of a liability. Based on IPSASB BC paragraph BC27, it could be argued that the intended meaning of 'present obligation' in paragraph 26 may be narrower than in the Conceptual Framework, and only includes enforceable obligations – meaning that constructive obligations do not cause revenue from transactions without binding arrangements to be deferred. While the discussion in paragraph BC27 is more in the context of binding arrangements, it does refer to a present obligation being a 'unit of account in the revenue context' generally.
	Paragraph BC 49 says the following, under the title 'Unenforceable Transactions': "The IPSASB discussed how to account for transactions that do not arise from a binding arrangement but have an implied requirement for how those resources are to be used (for example, limitations on the use of property taxes). The IPSASB concluded that an implied requirement needed to be enforceable by the resource provider. For example, taxpayers do not normally have enforceable rights, and the implied requirements may give rise to enforceable obligations of the resource recipient. " This paragraph seems to imply that 'implied requirements' need to be enforceable to affect revenue recognition.

Discussion with IPSASB staff

63. IPSASB staff have indicated that the IPSASB's intention was that *only enforceable obligations lead to the deferral of revenue in transactions without binding arrangements*. That is, constructive obligations do not lead to deferral of revenue in such transactions. In IPSASB staff's view, the reference to 'obligations [...] that meet the definition of a liability' in paragraph 29(a) and the reference to 'enforceable obligations' in paragraph 29(b) both relate to enforceable obligations.

64. Per discussion with IPSASB staff, the type of situation that was contemplated under paragraph 29 was when an organisation receives funds to be used for a specific programme, and the funding provider can enforce such use, but the funding provider did not have an enforceable obligation to provide the funds. There is no binding arrangement because one of the parties does not have enforceable obligations, but as the entity has enforceable obligations that meet the definition of a liability, it recognises revenue as or when it satisfies these obligations.

Proposed conclusion based on the considerations above

65. On balance, based on the analysis above, it seems that the IPSASB's intention behind paragraph 29 was that revenue from transactions without binding arrangements should be deferred *only if there are enforceable obligations associated with the inflow of resources*.

    (a) It could be argued that paragraphs 29(a) and 29(b) read together with paragraph 27 lead to this view. That is, the reference to 'obligation [...] that meets the definition of a liability' in paragraph 29(a) should be read narrowly to refer to *enforceable* obligations (that meet the definition of a liability), in the context of paragraph 29(b) and 27. This is also consistent with the fact that *enforceability* is a key overall concept underpinning revenue recognition in the proposed standard (through the binding arrangement principle).

    (b) We also note that this view does not result in direct contradiction of the definition and guidance on liabilities in Conceptual Framework. Under this view, in a transaction without a binding arrangement, the entity would defer revenue and recognise a liability when it has enforceable obligations associated with the inflow of resources – consistent with the definition of a liability per the Conceptual Framework and the general liability recognition principles. If the entity has no enforceable obligation, but has a constructive obligation that meets the definition and recognition criteria of a liability, we understand that the entity would still recognise a liability (provision) under PBE IPSAS 19 – just that this liability would not cause revenue recognition to be deferred.

Recommended action

66. The next question is, how to make this matter clear to New Zealand stakeholders. We have considered the following options:

(a) **Option 1:** To amend paragraph 29(a) of the proposed standard, by adding the word 'enforceable', as follows (amendment shown in red font):

> "29. [...] An entity shall recognise revenue from a transaction without a binding arrangement:
>
> (a) When (or as) the entity satisfies any enforceable obligations associated with the inflow of resources that meet the definition of a liability; or
>
> (b) Immediately if the entity does not have an enforceable obligation associated with the inflow of resources"

(c) **Option 2:** Add an explanation in the Basis for Conclusions – to explain that:

- Paragraph 29(a) refers generally to "obligations [...] that meet the definition of a liability", rather than referring specifically to enforceable obligations – but paragraph 27 specifically requires the entity to "*determine if the obligation is enforceable"* in the context of determining whether a liability exists, and the concept of enforceability is a key overall concept underpinning revenue recognition in the proposed standard;
- Therefore, the reference to 'obligations [...] that meet the definition of a liability' in paragraph 29(a), read in the context of paragraph 27, relates to enforceable obligations, consistent with paragraph 29(b).
- Consequently, in transactions without binding arrangements, revenue recognition is deferred only when the entity has enforceable obligations that meet the definition of a liability.

(d) **Option 3:** Refer the matter to the IAG.

67. Option 1 would clarify the intention of paragraph 29 to stakeholders in a clearer and more direct manner than Option 2. We acknowledge that, as explained in Topic A2 above, there is a risk in deviating from the IPSASB's wording in the core text, particularly with respect to key revenue recognition requirements. However, based on the discussion above (including the clarification from IPSASB staff), we consider that we have sufficient understanding of the IPSASB's intention behind paragraph 29(a), and the extent of the proposed amendment in Option 1 is relatively minor (one word). Therefore, we consider that the abovementioned risk is sufficiently mitigated.

68. Option 3 could ultimately provide clarity about paragraph 29 at an international standard level, and would avoid deviations between the wording of core requirements of the proposed standard and IPSAS 47. However, on balance, we consider that the scale of the potential issue arising from the different terms in paragraphs 29(a) and 29(b) is not as large as the issues that we identified with respect to the requirements for tax revenue (which we referred to the IAG). Also, as noted above, we consider that we have a sufficient understanding of the IPSASB's intention behind paragraph 29(a).

69. Consequently, we recommend **Option 1** for greater clarity.

A	Addition/amendment to **authoritative text** within the proposed standard

Questions for the Board:

Q5. Does the Board **AGREE** with our recommendation to address stakeholders' feedback in this section through amendments to paragraph 29(a)?

Q6. Does the Board have any **FEEDBACK** on the drafting of the proposed amendment?

Theme 2: Questions on whether certain obligations that are not enforceable should still result in the deferral of revenue in transactions without binding arrangements

Description of matter raised and staff analysis

70. Two respondents in the public sector raised the following points regarding obligations that are not enforceable and whether they should result in the deferral of revenue in transactions without binding arrangements. The respondents' comments and our analysis is noted in the table below.

Table 2 Analysis or feedback – Topic A3, Theme 2

Respondents' comments	XRB staff considerations
[1] Some grants are received without legally enforceable obligations attached to the funds, but with strong expectations as to how the funds should be used. Recognising revenue from such grants immediately upon receipt may give the impression that the reporting entity (council) has complete discretion over the use of the funds, which is not the case, and may create "volatility between years if similar arrangements are documented differently". *(Comment #16)*	We understand that this question arises mainly from paragraph 29 in the proposed standard, which requires revenue from transactions without binding arrangements to be deferred when there are enforceable obligations attached to the inflow of resources that meet the definition of a liability (see the discussion under Theme 1 above – we have recommended to clarify the effect of paragraph 29 though an amendment). If the strong expectations attached to a grant do not result in enforceable obligations, then under paragraph 29, revenue would not be deferred. However, the reporting entity receiving the grant would still be able to disclose the strong expectations attached to the grant in the notes to the financial statements. This would mitigate the risk that users of the financial statements may incorrectly assume that the entity has full discretion over using the grant funds. We do not consider that further changes are needed to the authoritative or non-authoritative text of the proposed standard.

Respondents' comments	XRB staff considerations
[2] For rates and taxes, there is often no enforceable obligation in the contractual sense, yet an obligation still exists. This raises questions about whether revenue should be recognised immediately on receipt. Unlike general rates charged by a council, some rates relate to specific services, e.g. public transport or rubbish collection. An example was mentioned where a council charged a public transport levy, but public transport could not be provided in a specific area, and the council had to refund the rate to individuals living in that area. This raises questions on the timing of revenue recognition for such rates. *(Comment #14)*	Paragraph 41 if the proposed standard says that taxes are transactions without a binding arrangement "because the taxpayer transfers resources to the government, and the government is not required to transfer distinct goods or services to the taxpayer or a third party beneficiary in return. While the taxpayer may benefit from a range of social policies established by the government, the taxpayer has no control over which benefits they receive as a result of the payment of taxes". While the same logic is likely to apply to general rates charged by a council, judgement may be required in determining whether targeted rates/levies for specific services are binding arrangements or not, i.e. whether the council and the ratepayer both rights and enforceable that are enforceable through legal or equivalent means. If a targeted rate/levy for a specific service is determined to be a transaction *without* a binding arrangement, the council would need to determine whether it has an enforceable obligation attached to the rate/levy revenue that meets the definition of a liability – as per paragraph 29 (see Theme 1 above). The IPSASB BC accompanying IPSAS 47 notes that "taxpayers do not normally have enforceable rights, and implied requirements may give rise to enforceable obligations of the resource recipient". In the same vein, a council's obligations with respect to a targeted rate/levy for a specific service may be enforceable through legal or equivalent means, and as such may meet the definition and recognition criteria of a liability. If the council's obligations associated with the rate/levy are enforceable and meet the definition of a liability, then under paragraph 29, revenue from the rate/levy would be recognised as or when the council fulfils the obligation. If the council has no enforceable obligations associated with the rate/levy, then revenue would be recognised immediately under paragraph 29. This outcome seems conceptually sensible. We have proposed an amendment to paragraph 29 to clarify its effect in Theme 1 above. We do not consider that further changes are needed to the authoritative or non-authoritative text of the proposed standard in relation to this comment.

Recommended action

E	No further action required

Question for the Board:

Q7. Does the Board **AGREE** with our recommendations for Theme 2?

Theme 3: Requests for further guidance and/or examples on transactions without binding arrangements where revenue recognition is deferred

Description of matter raised

71. Three respondents (two from the public sector and one that operates across the public and NFP sectors) called for further guidance and/or examples on revenue and liability recognition in transactions without binding arrangements. Specifically, they asked for guidance and/or examples of:

    (a) When to recognise a liability in a transaction without binding arrangements; and

    (b) What is meant by "when or as" an obligation is satisfied in the context of revenue recognition – including"

        (i) Whether this depends on the transfer of control, and;

        (ii) How to determine whether obligations are satisfied at a point in time or over time (noting that there are specific requirements for this in the proposed standard for revenue from binding arrangements).

    (Comments #18, 19, 21)

Staff analysis

72. We understand why stakeholders are asking for further guidance on when to defer revenue and recognise liability in a transaction without a binding arrangement, and how to determine when an obligation is satisfied in the context of revenue recognition for such transactions. For revenue transactions *without* binding arrangements, the volume and level of detail of requirements and guidance in the authoritative text of the proposed standard is significantly lower than for revenue with binding arrangements. Specifically:

    (a) The proposed standard requires revenue from transactions *with* binding arrangements to be satisfied as or when an entity satisfies compliance obligations. The proposed core text contains specific requirements and guidance on determining compliance obligations, whether these compliance obligations are satisfied at a point in time or over time, and how to assess whether the compliance obligation has been satisfied and/or the progress towards satisfying a compliance obligation. These requirements affect the timing of revenue recognition. The requirements for determining when compliance obligations are satisfied are based on the transfer of control over goods or services, and there are specific requirements and guidance on determining when control is transferred for this purpose. There is also a substantial authoritative Application Guidance (AG) section supporting the application of the proposed core text to revenue from binding arrangements.

    (b) For revenue from transactions *without* binding arrangements, the proposed core text requires revenue to be recognised as or when the entity satisfies obligations attached to the inflow of resources that meet the definition of a liability, or immediately when there are no enforceable obligations. There are three paragraphs (26-28) on the definition and recognition criteria of a liability. However, there are no

specific requirements or guidance in the core text on determining when an entity satisfies obligations that lead to revenue deferral in a transaction without a binding arrangement – which affects the timing of revenue recognition. There is also no AG section specifically on revenue without binding arrangements. There are some AG paragraphs on specific types of PBE transactions, including transactions that generally tend to be without binding arrangements – e.g. services in-kind, bequests and gifts and donations. However, these AG paragraphs do not provide guidance on identifying when revenue from a transaction without a binding arrangement should be deferred through the recognition of a liability, or how to determine when the entity satisfies the obligations that give rise to revenue deferral in such transactions.

73. We are not certain how common it is for transactions *without* binding arrangements to impose enforceable obligations on the entity receiving the resources. However, as stakeholders asked for additional guidance and/or examples on such transactions, we understand that these situations do occur. We have therefore considered whether and how to address the stakeholders' comments via the non-authoritative Implementation Guidance (IG) and/or Illustrative Examples (IE) that accompany the proposed standard.

Consideration of Implementation Guidance and Illustrative Examples

74. The majority of IGs and IEs in the proposed standard cover revenue *with* binding arrangements, whereas the IGs and IEs relating to revenue *without* binding arrangements are relatively limited. This is consistent with the IPSASB's IPSAS 47. When the IPSASB developed IPSAS 47, it adapted many of the IEs accompanying IFRS 15 *Revenue from Contracts with Customers* for the public sector context, but these examples relate to revenue *with* binding arrangements.

75. There are two IG sections focusing specifically on revenue transactions without binding arrangements: IPSASB-developed IG section C.1 on the timing of a 'taxable event' when recognising tax revenue, and NZASB-developed IG section C.3 on the allocation of the transaction consideration to obligations in a transaction without a binding arrangement. There are also two IG sections on specific transactions that may be with or without a binding arrangement: IPSASB-developed IG section E on multi-year arrangements, and NZASB-developed IG section G, which provides implementation guidance on NFP transactions that may be with or without binding arrangements.

76. There are two IEs in the proposed standard specifically on transactions without binding arrangements: IPSASB-developed Example 8, on accounting for tax received in advance of the 'taxable event', and NZASB-developed Case A1 in Example 55, on allocating the transaction consideration to enforceable obligations in a transaction without binding arrangements.

77. The IG paragraphs and IEs mentioned above do not address the topics where stakeholders wanted guidance and examples, i.e. when to defer revenue and recognise a liability in a transaction without a binding arrangement, and how to go about recognising revenue as or when obligations are satisfied in such transactions.

Discussion with IPSASB staff

78. We have discussed with IPSASB staff why the IPSASB did not develop IEs to address these aspects of revenue recognition of transactions without binding arrangements. Based on this discussion, our understanding is that IFRS 15 is accompanied by a large number of IEs, and many of these IEs were adapted into IPSAS 47 to support the IFRS 15-aligned requirements for revenue transactions *with* binding arrangements. To avoid the length of IPSAS 47 becoming excessive, the IPSASB set a high bar for adding any further IEs when developing IPSAS 47. Generally, where the principles in the standard were considered clear, no IEs were added.

79. We also checked with IPSASB staff what the IPSASB envisioned as an example of a revenue transaction without a binding arrangement, where there is an enforceable obligation attached to the inflow of resources. The example shared with us was as described in paragraph 64 of this memo, i.e. where an entity receives funds that must be used for a specific programme or otherwise returned to the funding provider, who can enforce this – but the funding provider did not have an enforceable obligation to provide the funds. There is no binding arrangement because one of the parties does not have enforceable obligations, but as the entity has enforceable obligations that meet the definition of a liability, it recognises revenue as or when it satisfies these obligations

Recommended action

80. We note that the NZASB developed a New Zealand IE on one aspect of accounting for revenue from transactions without binding arrangements – namely, on the allocation of transaction consideration to multiple obligations in such transactions (Case A1 in Example 35).

81. In a similar vein, to address stakeholders' feedback, we could develop an IE illustrating the considerations for when to defer revenue and recognise a liability in a transaction without a binding arrangement, and how to apply the requirement to recognise revenue as or when obligations are satisfied in such transactions. The IE could be developed as an extension of an existing IE for revenue with binding arrangements or as a separate example.

82. We have given some consideration to the example mentioned in paragraph 79 above, and we would expect that in most cases, where an entity has an enforceable obligation associated with an inflow of resources, there would be a binding arrangement in place.

83. Therefore, before developing an example as mentioned in paragraph 81, we would appreciate the Board's feedback on the following: Are Board Members aware of a **common New Zealand example** of a **transaction *without* a binding arrangement** where the PBE receiving funds/resources has **enforceable obligations** associated with the inflow of resources?

84. Based on the Board's feedback, we will consider whether to develop an IE on this topic for discussion at a future meeting.

Question for the Board:

Q8. Does the Board have any feedback on the questions in paragraph 83?

Topic A4: Challenges – measurement of liabilities

85. Paragraphs 32 and 33 of the proposed standard set out the requirements for the measurement of liabilities arising as a result of a revenue transaction without a binding arrangement.

> 30. "The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date. For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised.
> 31. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognised. Where the time value of money is material, the liability shall be measured at the present value of the amount expected to be required to settle the obligation. This requirement is in accordance with the principles established in PBE IPSAS 19."

86. We received two comments on the measurement of liabilities arising from transactions without binding arrangements:

Topic: Challenges – measurement of liabilities in transactions without binding arrangements Comments by sector		
Public sector	**Not-for-profit**	**Both**
2	0	0
(Comments #18, 20)	*n/a*	*n/a*

Topic: Challenges – measurement of liabilities in transactions without binding arrangements	
Respondent	**Number of comments**
Audit Office	1
Outreach feedback	1
Total	**2**

Analysis and staff recommendations

87. The comments received on the measurement of liabilities and our analysis and recommendations are set out below.

Table 3: Feedback analysis – Topic A4

Feedback	XRB staff analysis and recommendations
[1] A stakeholder in the public sector called for more guidance on the measurement of liabilities arising from revenue transactions without binding arrangements – and noted that the NZASB-developed Implementation Guidance paragraph C3 seems to contradict paragraph 32 of the proposed standard.	We acknowledge that the *stand-alone value* of goods or services to be provided by the entity in a transaction without a binding arrangement is not necessarily the same as that "best estimate of the amount required to settle the obligation". However, paragraph C3 does not state that liabilities are recognised at the stand-alone value of goods or services to be delivered by the entity. Rather, it refers to *allocating the transaction consideration* to multiple obligations on a *relative stand-alone value basis* – similar to how the transaction

Feedback	XRB staff analysis and recommendations
Paragraph 32 says: "The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date". IG paragraph C3 notes that in a binding arrangement, the transaction consideration should be allocated to different compliance obligations on a relative stand-alone value basis – and that the same methods for allocating transaction consideration in a binding arrangement may also be applied "when dealing with multiple obligations in a transaction without binding arrangements". The respondent noted the following with respect to IG paragraph C3: "Stand-alone value (defined as the price of a good or service) may not be the same as the amount required to settle an obligation which is strictly an expected cost approach (this can be seen in Example 35 Case A and Case A1, where CU500 for vaccine A is the price at which it was previously provided to the resource provider, whereas CU100 for vaccine B is based on the expected cost approach)". *(Comment #18)*	consideration is required to be allocated to compliance obligation in revenue transactions with binding arrangements. In Illustrative Example 35, Case A1, the entity received CU 100,000 to administer a specific number of doses of Vaccine A and Vaccine B. Assuming the entity has an obligation that meets the definition of a liability with respect to the full amount of funds received for delivering Vaccine A and Vaccine B (e.g. the entity must deliver the vaccines or pay the money back/give the money to another organisations, etc.), then the full amount of CU 100,000 would initially be recognised as a liability. This is consistent with the requirement in paragraph 32 to recognise a liability at the "best estimate of the amount required to settle the obligation at the reporting date" – with the caveat that "For the purposes of this Standard, the best estimate of a liability on initial recognition is limited to the value of the associated asset recognised". *For the purpose of derecognising the liability and recognising revenue*, the entity needs to allocate the CU 100,000 transaction consideration to the obligations to deliver Vaccine A and Vaccine B. Consistent with IG paragraph 3.5, IE 35 Case A1 notes that this allocation can be performed on the basis of the relative stand-alone values of the two vaccines, which are determined as CU500 for Vaccine A and CU100 for Vaccine B. This does not mean that the liability recognised by the entity equals to these stand-alone values – but rather that the transaction consideration of CU 100,000 is allocated to the two vaccines based on the relative stand-alone values, for the purpose of derecognising the CU 100,000 liability and recognising revenue as the entity satisfies its obligations in relation to the two vaccines. We do not consider that changes are needed to paragraph 32-33, IG paragraph C3 or IE 35.
[2] A PBE Working Group member from the public sector asked the following question: • A resource provider gives $100 to a resource recipient with no return obligations, but with enforceable rights to performance. • The resource recipient estimates that they will spend $80 of the funds to fulfil enforceable obligations. • Should the resource recipient measure the liability at $80? *(Comment #20)*	Paragraph 17 of the proposed standard states that in a transaction without a binding arrangement, an entity shall determine if any of its obligations meet the definition of a liability. The requirements on meeting the definition and recognition criteria of a liability are set out in paragraphs 26–28. According to paragraph 29, in a transaction without a binding arrangement, if there are enforceable obligations attached to the inflow of resources that meet the definition of a liability, the entity recognises revenue when or as it satisfies these obligations. Paragraph 32 says that "The amount recognised as a liability shall be the best estimate of the amount required to settle the obligation at the reporting date" (which is limited to the value of the related asset recognised).

Feedback	XRB staff analysis and recommendations
	We consider that there is sufficient information in the proposed standard to address the stakeholder's query.

E	No further action required

Question for the Board:

Q9. Does the Board **AGREE** with our recommendations in this section?

Topic A5: Other comments on revenue without binding arrangements

Description of issue and staff analysis

88. A stakeholder in the public sector noted that "PBE IPSAS 47 does not appear to have explicit guidance on accounting for resources received for internal use without a binding arrangement".

89. The respondent's observation is correct. While the proposed standard provides specific guidance on accounting for resources received for internal use in transactions *with* binding arrangements, there is no such specific guidance for transactions *without* binding arrangements. However, the proposed standard takes a similar approach with respect to resources received to provide goods or services to the purchaser or to third party beneficiaries: there is specific guidance on this for revenue transactions *with* binding arrangements, but not for revenue transactions *without* binding arrangements.

90. The general approach of IPSAS 47, as reflected in the proposed standard, is that the requirements and guidance on revenue with binding arrangements (based on IFRS 15) are generally more detailed than the requirements and guidance for revenue without binding arrangements.

91. Having said this, the requirements for revenue transactions without binding arrangements cover the type of transaction that the respondent referred to. That is, if the obligation to use the resources internally is an enforceable obligation as defined in the proposed standard, then under paragraph 29(a), the entity would recognise revenue as or when this obligation is satisfied. If the obligation is not enforceable, then the entity would recognise revenue immediately in accordance with paragraph 29(b). Similar considerations would apply to an obligation to use resources to provide goods or services to the purchaser or third-party beneficiaries in a transaction without a binding arrangement.

Recommended action

92. Based on the analysis above, we do not recommend further action with respect to this comment.

E	No further action required

Question for the Board:

Q10. Does the Board **AGREE** with our recommendations in this section?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB - PBE Standards - Revenue

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue: Analysis of stakeholder feedback on the proposed requirements for revenue from transactions with binding arrangements**
Date:	11 November 2026
Prepared by:	Gali Slyuzberg
Through:	Carly Berry; Michelle Lombaard

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

Purpose and introduction[1]

1. The purpose of this agenda item is to analyse the feedback received from stakeholders ('respondents') on the proposed accounting requirements for revenue arising from transactions *with* binding arrangements in ED PBE IPSAS 47 *Revenue* ('the proposed standard').

2. This agenda item covers respondents' feedback to Consultation Question 4 – i.e. the question on the accounting model for revenue with binding arrangements – as well as feedback on other questions that relate to this accounting model.

3. The analysis of feedback on the proposed accounting model for revenue transactions without binding arrangements is in agenda item 8.2. The analysis of other feedback on the proposed accounting requirements for revenue, including feedback relating to specific transactions that may be with or without a binding arrangement, is in agenda item 8.4.

Recommendations

4. We recommend that the Board **AGREES** with our recommended actions in response to respondents' feedback.

Summary of recommended actions

5. We recommend the following actions in relation to the feedback received:

Recommendation type (see agenda item 8.1)		Feedback to which recommendation applies
C	Adoption and implementation support	• Challenges relating to compliance 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).

		○ Timing of revenue recognition in arrangement where funding is received upfront but the entity's performance takes more than a year. ○ Whether requirement to report annually to the grantor constitutes a compliance obligation. ○ Comment that when an entity has many arrangements with different terms, determining compliance obligations and allocating transaction consideration can be subjective. ○ Challenges around documentation/evidence on the completion of milestones. ○ Question on revenue recognition where the entity satisfies compliance obligation without using the full amount of funds received and the grantor does not request the return of unspent funds. ○ In long-term arrangements, how enforceability and compliance obligations are assessed when deliverables change due to project scope changes or regulatory changes.
E	No further action required	• Comments indicating support/benefits • General comments on potential costs/concerns – transition costs similar to NZ IFRS 15, lack of familiarity with NZ IFRS 15 concepts among PBEs, concerns about different views in the profession. • Other comments relating to revenue with binding arrangements: ○ Concern that the binding arrangement concept may be challenging to implement and may overcomplicate the simple concept of accrued revenue. ○ Concern with the definition of 'capital transfer' referring only to binding arrangements. ○ Concern about potential mismatch between the authoritative paragraphs vs BCs and IEs on binding arrangements with resources received for internal use. ○ Recommendation to add the concept of a 'transfer liability' to the proposed Revenue standard, to mirror 'transfer right asset' in the proposed Transfer Expenses standard. ○ Comments covered in the NZASB's discussion on the concept of a binding arrangement in April – June 2026.

Structure of this agenda item

6. This memo contains the following sections:

(a) Process followed to analyse stakeholder feedback

(b) Part B: Revenue with binding arrangements

i. Topic B1: Comments indicating support/benefits

ii. Topic B2: General comments on costs

iii. Topic B3: Challenges – compliance obligations

iv. Topic B4: Other comments on revenue with binding arrangements

Process followed to analyse stakeholder feedback

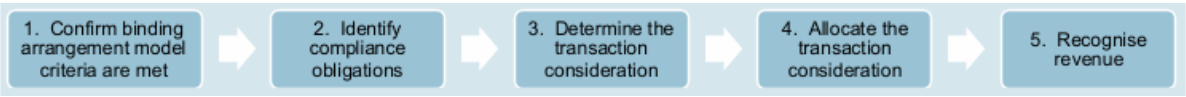
7. Refer to Agenda Item 8.1. An extract of Table 1 from that agenda item is set out below:

Topic	Number of comments	Paragraph ref
Part B: Revenue with binding arrangements		
Topic B1: Comments indicating support/benefits	7	13-16
Topic B2: General comments on potential costs/concerns	4	17-19
Topic B3: Challenges relating to compliance obligations	9	20-24
Topic B4: Other comments on revenue with binding arrangements	5	25-27
Total	**25**	

8. Agenda item 8.5 (Board-only paper) sets out all the comments received on the proposed requirements for revenue with and without binding arrangements, with each given a unique number for reference purposes.

Part B: Revenue with binding arrangements

9. As a reminder: The proposed accounting requirements for revenue from transactions with binding arrangements are aligned with the 'five step model' in IFRS 15 *Revenue from Contracts with Customers*, as adapted by the IPSASB for the public sector. This model is depicted below.



10. Under the 'five step mode' in the proposed standard:

    (a) Revenue is recognised when or as an entity satisfies its *compliance obligations* in the binding arrangement. A compliance obligation is an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.

    (b) An entity measures revenue by determining the transaction consideration, i.e. the amount of resources to which the entity expects to be entitled for satisfying the compliance obligation(s), and allocating this amount to the identified compliance obligations.

11. The authoritative accounting requirements for revenue with binding arrangements are included in paragraphs 56-161 of the proposed standard and application guidance paragraphs AG32–AG138. There are also multiple Implementation Guidance (IG) paragraphs and over 40 Illustrative Examples (IEs) relating to revenue with binding arrangements.

12. Specific requirements relating to revenue with binding arrangements is included in the sections below as relevant to the specific stakeholder feedback being discussed.

Topic B1: Comments indicating support/benefits

13. We identified 7 comments indicating general support for, or highlighting the benefits of, the proposed accounting model for revenue from transactions with binding arrangements. In some cases, the support was qualified by specific concerns (which are analysed separately in the related sections of this paper).

Topic: Comments indicating support/benefits **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
4	1	2
Comments #23, 25, 27, 28[2]	*Comments #24*	*Comments #26, 30*

Topic: Comments indicating support/benefits	
Respondent	**Number of comments**
Treasury	1
Audit Office	2
CAANZ	1
Outreach feedback	3
Total	**7**

Analysis

14. Of the 7 comments, 5 comments generally agreed with the proposed approach to accounting for revenue with binding arrangement, and 2 comments specifically noted that the concept of compliance obligations is sensible and/or sufficiently clear. One of the respondents also specifically emphasised the benefit of alignment with IFRS 15 *Revenue from Contracts with Customers*.

15. Where the general supportive comments were qualified by specific concerns, these concerns are addressed in the relevant sections of this paper.

Recommended action

16. As the comments are supportive, no further action is required.

E	No further action required

Question for the Board:

Q1. Does the Board **AGREE** with our recommendation in Topic B1?

[2] The comment reference numbers refer to the detailed list of comments in Agenda Item 8.5, which is available to NZASB members.

Topic B2: General comments on potential costs/concerns

17. We identified 4 general comments on potential costs or concerns relating to the proposed accounting model for revenue with binding arrangements.

Topic: General comments on potential costs/concerns Comments by sector		
Public sector	**Not-for-profit**	**Both**
1	0	3
Comments #37		*Comments #26, 29, 30*

Topic: General comments on potential costs/concerns	
Respondent	**Number of comments**
CAANZ	1
Outreach feedback	3
Total	**4**

Analysis

18. The general comments on costs/concerns relating to the accounting model for revenue with binding arrangements, and our analysis of and recommendation on these comments, are included in the table below.

Table 1 General comments on potential costs/concerns

Comments from respondents	XRB staff analysis
[1] Transition challenges – similar to IFRS 15: • A stakeholder working across the public and not-for-profit sectors noted that transition to the new requirements will be a significant challenge for PBEs, based on the experience in the for-profit sector with IFRS 15.[3] *(Comment #26)* • An academic noted that based on the experience in the for-profit sector with IFRS 15, PBEs may experience *initial* implementation costs in relation to training, setting up systems, and making significant judgements, when	We acknowledge that PBEs transitioning to the new accounting requirements for revenue with binding arrangements could face similar implementation challenges to those faced by some for-profit entities when implementing IFRS 15. However, we also note that the introduction of any new accounting standard, particularly on a fundamental topic such as revenue, generally involves implementation costs. The key question is whether costs are sufficiently justified by benefits, particularly in the long run, once implementation challenges have been worked through. As discussed with the Board in April-June 2026, respondents generally supported a revenue model based on the 'binding arrangement' principle – and as noted above, there was support among respondents for an IFRS 15-aligned model for revenue with binding arrangements. Also, as noted by one of the stakeholders (in the left-hand column): Similar to IFRS 15, while PBEs may experience implementation cost and challenges, these are likely to

[3] The same comment also noted that assessing enforceability requires judgement and therefore some classification inconsistency is expected. This part of the comment was covered in the April 2026 NZASB discussion on binding arrangements (Agenda Item 9.1, page 37 of the public papers, comment #56).

Comments from respondents	XRB staff analysis
implementing the requirements for revenue with binding arrangements. However, once the systems are in place, the requirements should work well, and the initial implementation costs should 'settle'. *(Comment #30)*	settle once systems are in place and familiarity with the standard's requirements has developed. We note that there are 137 Application Guidance (AG) paragraphs on revenue with binding arrangements in the authoritative section of PBE ED IPSAS 47, to assist PBEs in the application of these requirements. In addition, ED PBE IPSAS 47 is accompanied by 42 Illustrative Examples (IEs) on revenue from binding arrangements, and several IEs on specific transactions also relate to binding arrangements. As requested by the Board, we are in the process of reviewing the IEs to determine whether and how to make them more NZ-specific. These IEs aim to assist PBE preparers in applying the accounting requirements for revenue transactions with binding arrangements. Furthermore, the NZASB agreed in October 2026 that the mandatory date of PBE IPSAS 47, once finalised, will not be 1 January 2029 or earlier – i.e. it would be later than 1 January 2029. As such, PBEs would have sufficient time to implement the new standard. We plan to discuss the topic of transition at a future Board meeting, and a holistic cost/benefit assessment will be undertaken before we seek the Board's approval of this standard. Considering the above, we do not recommend any specific actions at this time with respect to transition challenges relating specifically to revenue with binding arrangements.
[2] Lack of familiarity with IFRS 15 among PBEs: An accounting firm representative noted that accountants in the PBE space do not have experience with IFRS 15. *(Comment #29)*	We acknowledge the lack of familiarity with IFRS 15 among PBEs. However, we note that some PBEs obtain assistance from accounting firms, who have experience with IFRS 15, and PBEs can benefit from this experience. While not all PBEs (particularly in Tier 2) obtain accounting assistance or advice from firms, we do not recommend any specific action in relation to this comment for the same reasons as those noted above.
[3] Concern about different views in the profession: A public sector representative noted that the proposed accounting model for revenue with binding arrangements will lead to the right outcomes, but was worried that there could be different views in the accounting profession regarding application. *(Comment #23)*	We acknowledge the risk of different accounting professionals interpreting ED PBE IPSAS 47 differently with respect to a similar transaction. However, as noted above, there is a substantial amount of Application Guidance and Illustrative Examples to support application of the accounting requirements for revenue with binding arrangements. We consider that this guidance will help reduce the risk of different interpretations. We also note that for any new standard where judgement is involved, different views on application could emerge initially, but then more standardised practice tends to develop with time. We do not recommend specific action with respect to this comment.

Recommended action

19. Based on the analysis above, we do not recommend further action with respect to the matters noted in this section – noting that the topic of transition will be discussed with the NZASB at a future meeting, and a holistic assessment of the benefits and costs of ED PBE IPSAS 47 will be undertaken once all feedback has been addressed.

E	No further action required

Question for the Board:

Q2. Does the Board **AGREE** with our recommendation n Topic B2?

Topic B3: Challenges relating to compliance obligations

20. The identification of compliance obligation in a binding arrangement is a key aspect of revenue recognition in transactions with binding arrangements – as is the determination of how to allocate the transaction consideration to compliance obligations, and the pattern and timing of satisfying the performance obligation.

21. A **compliance obligation** is defined in the proposed standard as an **entity's promise** in a **binding arrangement** to either:

    (a) **Use resources internally** for **distinct goods or services**; or

    (b) **Transfer distinct goods or services** to a **purchaser or third party beneficiary**".

    For the purpose of the proposed standard, the term 'resource' includes goods, services and other assets, including cash and non-current assets. The term 'goods or services' also encompasses cash and non-current assets.

22. We identified 8 comments about challenges relating to compliance obligations, including in relation to determining compliance obligations, allocating the transaction consideration to compliance obligations, and determining when compliance obligations are satisfied.

Topic: Challenges relating to compliance obligations **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
5	1	2
Comment #33, 34, 35, 36, 38	*Comment #31*	*Comment #32, 39*

Topic: Challenges relating to compliance obligations	
Respondent	**Number of comments**
Auckland Council	2
Outreach feedback	6
Total	**8**

Analysis

23. The 8 comments relating to compliance obligations, and our analysis of these comments, are included in the table below. As a general note, we acknowledge that in some instances, determining compliance obligations and when they are satisfied could be challenging and judgement will be required.

Table 2 Challenges relating to compliance obligations

Comment from respondents	XRB staff analysis
[1] Complexity can arise in a binding arrangement when funds are received upfront, but the outcomes are only expected in, say, 1–3 years' time. For example, this can be the case for grants to develop software and grants for social housing development. There is a question as to whether revenue is recognised as the project progresses, or once the software becomes live or the housing development is complete. *(NFP stakeholder – Comment #31)*	An entity in the situation described by the stakeholder would need to determine its compliance obligation(s) under the binding arrangement, and whether the compliance obligation(s) is/are satisfied at a point in time or over time. Paragraphs 68–77 in the proposed standard contain requirements on identifying compliance obligations, including considering whether a good or service to be transferred by the entity (or produced by using the received resource internally) is distinct from other goods/services promised by the entity, or whether there is a single compliance obligation. Paragraphs 87–104 include requirements on determining whether a compliance obligation is satisfied at a point in time or over time, and how to determine the timing of satisfaction. These requirements would help an entity decide whether to recognise revenue only once the entity has completed the development of the software or social housing, or over the course of the development. We consider that there is sufficient guidance in the proposed standard to address the matter raised by the stakeholder. However, it may be useful to highlight this guidance as part of implementation and adoption support activities (e.g. in educational material, webinars, etc).
[2] Question on whether a requirement to report annually to the grantor in a multi-year grant constitutes a compliance obligation. *(Stakeholder from accounting firm – comment #32)*	Paragraph 72 in the proposed standard says: "Compliance obligations do not include activities that an entity must undertake to satisfy a binding arrangement unless the completion of those activities uses resources in a manner clearly specified in the binding arrangement. For example, an entity may need to perform various administrative tasks to set up a binding arrangement. The performance of those tasks does not use a resource internally for a service or transfer a service to a purchaser or third-party beneficiary as the tasks are performed. Therefore, those setup activities are not a compliance obligation". Suppose that, as part of a binding arrangement, an entity receives funds from a grantor to deliver education services to the community, and has an obligation to report regularly to the grantor on progress towards delivering the agreed services. The purpose for which the resources (funding) were provided was for the entity to deliver education services to third party

Comment from respondents	XRB staff analysis
	beneficiaries. Considering paragraph 72 of the proposed standard, the activity of reporting to the grantor is unlikely to constitute *using the resources received* in a manner specified in the binding arrangement to transfer services to third party beneficiaries. We consider that there is sufficient information in the proposed standard to address the respondent's comment. However, it may be useful to highlight this guidance as part of implementation and adoption support activities (e.g. in educational material, webinars, etc).
[3] Councils receive grants and subsidies from various agencies, with different terms, and with some arrangements including milestones, reporting obligations and outcome indicators that are not easily measurable. Determining whether these represent enforceable compliance obligations and allocating the transaction consideration to them can be highly subjective (*Public sector stakeholder - Comment #33*)	We acknowledge the respondent's concerns about cost, judgement and possible subjectivity, particularly given a large volume of arrangement to consider. However, as noted in the Consultation Document that accompanied the proposed standard, accounting for revenue inherently requires significant judgement (including under the current PBE Standards). The important question is whether the proposed model results in appropriate accounting outcomes, useful information for users and whether the benefits outweigh the costs. We note that respondents generally support the binding arrangement principle conceptually, and there was also support for alignment with IFRS 15 for revenue with binding arrangements. Also, as noted above, there is a substantial amount of guidance in the proposed standard relating to compliance obligations and their satisfaction. These requirements and guidance should help reduce the risk of excessive subjectivity, although the need for judgement cannot be completely eliminated. We also note that the proposed standard contains a 'portfolio approach' practical expedient in paragraph AG11, whereby an entity is allowed to apply the Standard to "to a *portfolio of binding arrangements (or compliance obligations) with similar characteristics* if the entity reasonably expects that the effects on the financial statements of applying this Standard to the portfolio would not differ materially from applying this Standard to the individual binding arrangements (or compliance obligations) within that portfolio". This practical expedient is expected to assist entities dealing with large volumes of transactions, in terms of reducing costs and effort required in applying the requirements for revenue with binding arrangements – assuming that there are groups of transactions with similar characteristics within the total volume of transactions that the entity deals with. We do not consider that changes are needed to the proposed standard with respect to the matter raised by the respondent. However, we think it would be useful to remind stakeholders about the guidance in the proposed standard and the portfolio approach practical expedient through implementation and adoption support activities.
[4] Challenges around documentation/evidence on the completion of milestones. Sometimes information on	Whether an entity needs to track the completion of milestones or not depends on the nature of its compliance obligations under the binding arrangement, and whether they are satisfied at a point in time or over time. Where compliance obligations are satisfied over time, the proposed standard requires the entity considers whether to determine progress towards the satisfaction of a compliance obligation using an 'output method' (e.g. based on milestone

Comment from respondents	XRB staff analysis
meeting milestones is not necessarily written down or able to be tested, with manual spreadsheets being used, etc. *(Public sector stakeholders – Comments #36 and #38)*	achievement), or an 'input method' (e.g. based on eligible expenditure incurred). There is guidance in the proposed standard on how to make this determination, with a key factor being faithful depiction of the entity's performance towards satisfaction of the compliance obligation (paragraphs AG86 – AG95). If recognising revenue based on the completion of milestones faithfully depicts the entity's performance towards satisfying its performance obligations, then arguably there is a benefit in tracking the achievement of milestones and having documentation to support such achievement – both for the entity's internal management purposes and for the purpose of providing useful information to users of the financial statements. Also, it should be noted that paragraphs 103 and 104 in the proposed standard discuss situations where the entity cannot "reasonably measure its progress towards complete satisfaction of a compliance obligation", and the accounting implications of this. We do not consider that changes are needed to the standard with respect to the stakeholders' comments, but it may be useful to highlight these matters as part of implementation and adoption support activities.
[5] Question on revenue recognition and the treatment of unspent funds in a situation where: • The entity has received funds and has been recognising revenue based on expenditure incurred; • The entity has delivered goods or services as agreed in the contract, but for less cost than expected; and • The grantor indicates that the entity does not need to return unspent funds. *(Accounting firm representative, Comment #39)*	The following considerations are based on our understand that this question relates to a binding arrangement (i.e. assuming that the grantor is able to enforce delivery of goods and services per the contract, but does not require repayment of unspent funds as long as the agreed goods and services were delivered): Recognising revenue based on expenditure is an example of an 'input method'. Guidance on input methods is included in paragraphs AG92-AG95. Paragraph AG92 notes that input methods "recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a compliance obligation (for example, resources consumed, labour hours expended, eligible expenditures incurred, time elapsed or machine hours used) relative to the *total expected inputs* to the satisfaction of that compliance obligation". Therefore, in the example referred to by the stakeholder, where the entity is recognising revenue based on expenditure incurred: If the entity expects to use less than the full amount of funding received, and the grantor has communicated that unspent funds need not be returned, this affects the percentage of [actual expenditure incurred] / [total expenditure expected to be incurred] that is applied to the transaction consideration when measuring revenue to be recognised. There is also guidance in the proposed standard for the converse situation, i.e. where an entity has an obligation to return unspent funds in a binding arrangement – see Illustrative Example 20, Case A (which says that "Unused amounts are recognised as a binding arrangement liability because the return of unused funds is unavoidable. [...]") We consider that there is sufficient guidance in the proposed standard to address the situation mentioned by the stakeholder.

Comment from respondents	XRB staff analysis
[6] A stakeholder noted that for long-term infrastructure funding, deliverables may change over time due to project scope changes or regulatory amendments. It is unclear how enforceability and obligations should be reassessed in such cases. *[Public sector stakeholder, Comment #34]*	We acknowledge that for long-term binding arrangements, modifications to the arrangement can occur during the arrangement period, and that regulatory changes that affect enforceable rights and obligations can occur part-way through a long-term arrangement. Regarding modifications: • The proposed standard contains specific requirements on the treatment of modifications to binding arrangements, in paragraphs 63–66. A modification to a binding arrangement is defined as "a change in the scope or consideration (or both) of a binding arrangement that is approved by the parties to the binding arrangement". • If an entity agrees on a change in deliverables with the other party to the binding arrangement part-way through the arrangement, paragraphs 63 – 66 should be applicable to such situations. • If the terms of an arrangement between a council and another party change due to a legislative or regulatory changes: We acknowledge that *the change to legislation or regulation itself* is imposed unilaterally, rather than being approved by all the parties to the arrangement. However, the council would presumably communicate the *resulting change to the binding arrangement* to the other party, and the other party would either agree to continue with the modified arrangement, or be able to exit the arrangement if it does not 'approve' of the change. In terms of re-assessing enforceability after the inception of the binding arrangement: • Paragraph AG14 says: "The entity's assessment of enforceability occurs at inception *and when a significant external change indicates that there may be a change in the enforceability* of that arrangement". • IG paragraph B4 provides guidance on changes in factors relating to the enforceability of a binding arrangement, after the arrangement's inception. This IG paragraph specifically mentions 'change in the legal framework' impacting the ability to enforce rights through legal or equivalent means. IG paragraph B4 explains the accounting implications from such a change: "The implication on subsequent measurement of the respective asset or liability depends on whether the impact is not likely to be reversed and should be accounted for in accordance with PBE IPSAS 41 *Financial Instruments*. For example, an entity that completely satisfied its compliance obligation and has an unconditional right to consideration would partially impair and derecognise its receivable asset if it intends to only enforce a portion of its right (and does not expect to reverse this decision), but would fully impair and derecognise the asset if it fully loses the ability to enforce its right due to legislative changes. The respective impairment loss would be recognised in accordance with PBE IPSAS 41." We consider that there is sufficient guidance in the proposed standard.

Recommendations

24. Based on the analysis above, we do not consider that changes to the proposed standard are required with respect to the feedback above relating to compliance obligations. However, we consider that there are certain requirements and guidance in the ED that would be useful to remind about or highlight to stakeholders through adoption and implementation support activities, to assist them in applying the accounting requirements for revenue with binding arrangements – noting that the determination of compliance obligation and the timing of their satisfaction are key judgement areas on the accounting model for revenue with binding arrangements.

C	Adoption and implementation support

Question for the Board:

Q3. Does the Board **AGREE** with our recommendation in Topic B3?

Topic B4: Other comments on revenue with binding arrangements

25. In addition to the comments in topics B1-B3, we have identified 5 other comments relating to revenue transactions with binding arrangements

Topic: Other comments on revenue with binding arrangements **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
4	1	0
Comment #41, 42, 43, 44	*Comment #40*	

Topic: Other comments on revenue with binding arrangements	
Respondent	**Number of comments**
Audit Office	3
Outreach feedback	2
Total	**5**

Analysis

26. The 5 comments relating to compliance obligations, and our analysis of these comments, are included in the table below.

Table 3 Other comments on revenue with binding arrangements

Comments from respondents	XRB staff analysis
[1] Concern that the 'binding arrangement asset' concept is going to be problematic to implement, although it is effectively working on the principle of accrued income. Potentially overcomplicating a simple concept. *(Accountant working with NFPs – Comment #40)*	The requirements for revenue transactions with binding arrangements in the proposed standard are based on those in IPSAS 47, which the IPSASB developed based on the requirements in IFRS 15. IFRS 15 uses the terms 'contract asset' (and 'contract liability') for assets (and liabilities) arising from revenue transactions in the scope of this standard. In adapting the IFRS 15 requirements for the public sector context, the IPSASB adapted the term 'contract asset' (and 'contract liability') in IFRS 15 to 'binding arrangement asset' (and 'binding arrangement liability'). We acknowledge that this new terminology could take some time for stakeholders to become familiar with, and we plan to support stakeholders in this through implementation and adoption support activities (see the agenda item 7.6 *Analysis of stakeholder feedback on other topics relating to cost)*. We also note that while a binding arrangement asset is similar to accrued revenue, the term 'binding arrangement asset' is more directly connected with the specific requirements for binding arrangements in the proposed standard – whereas accrued revenue could arise from other types of transactions that are not accounted for under the 'revenue with binding arrangements' requirements (although the accounting may possibly be similar, but not necessarily the same). Having said this, paragraph 166 allows entities to user alternative terms to 'binding arrangement asset' and 'binding arrangement liability' in the statement of financial position. We do not consider that changes to the proposed standard are needed with respect to the stakeholder's comment, and do not recommend any specific action – other than the implementation and adoption support to help stakeholders become familiar with new terminology, as noted in agenda item 7.6 *Analysis of stakeholder feedback on other topics relating to cost*.

Comments from respondents	XRB staff analysis
[2] A stakeholder noted that it is unclear why 'capital transfer' is defined in ED PBE IPSAS 47 as a binding arrangement. They noted that an entity can receive an asset such as property, plant and equipment (PP&E) without a binding arrangement – and asked whether it makes sense to account for such a transaction differently to a capital transfer as defined. *(Public sector stakeholder, Comment #41)*	The proposed standard defines 'capital transfer' as: "an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity" (paragraph 4). We acknowledge that in common usage outside of accounting standards, the term 'capital transfer' may have a broader meaning not limited to transactions with binding arrangements. However, the IPSASB decided to define this term more narrowly for the purpose of the guidance on capital transfers in IPSAS 47, and the definition in the proposed NZ standard is aligned with the IPSASB's definition. If we were to expand the definition of 'capital transfer' to also include transfers without a binding arrangements by way of a New Zealand modification, there could be unintended consequences, particularly as the current IPSAS-based requirements and guidance for capital transfers specifically reflect the requirements for revenue with binding arrangements. In the example mentioned by the respondent, receiving an item of PP&E that is ready to use would not constitute a capital transfer as defined, whether this transfer is subject to a binding arrangement or not. If an entity receives funding to construct an asset, then: • If the transaction is *with a binding arrangement*, the guidance on capital transfers (which refers to the general requirements for revenue with binding arrangements) will apply; and • If the transaction *without a binding arrangement*, then revenue will be recognised in accordance with paragraph 29, similar to other transactions without binding arrangements, with the timing of revenue recognition depending on whether the entity has enforceable obligations. This difference is consistent with having different revenue model for revenue transactions with and without binding arrangements. We do not recommend further action as a consequence of the respondent's comment.

Comments from respondents	XRB staff analysis
[3] A respondent noted that with regards to recognition of revenue from resources received/receivable *for internal use* under a *binding arrangement*: • Paragraphs BC9–BC11 and Illustrative Examples 20A and 24A include the necessity to have 'an *unavoidable transfer of resources to another party*' as a consequence of non-compliance; • However, the authoritative part of the proposed standard does not include such a specific requirement. *(Public sector stakeholder, Comment #43)*	The Illustrative Examples referred to by the respondent say the following: • Example 20, Case A [Relates to an entity receiving funds to be used in the operation of a specific department within the entity in the next two years, where unused funds must be returned]: "Unused amounts are recognised as a binding arrangement liability because the return of unused funds is unavoidable". • Example 24A [Relates to receiving funds to be used for training the entity's own staff within a year, with funds allocated to undelivered training to be transferred to a third party organisation]: "Upon receiving the CU15,000, the entity records a binding arrangement liability, deferring revenue recognition. At this point, the entity has a present obligation due to a past event to incur an unavoidable transfer of resources to another party." We note that the following paragraphs in the authoritative part of the proposed standard refer to the entity not being able to avoid a transfer of resources – in the context of identifying compliance obligations and in the context of recognising a liability (both of which affect revenue recognition): • Paragraph 69: "A binding arrangement has at least one compliance obligation because its enforceability holds the entity accountable for satisfying its obligations of the arrangement, for which the entity has little or no realistic alternative to avoid." • Paragraph 83: "In accordance with paragraph 27, a liability exists if the entity cannot avoid a transfer of resources as a consequence of past events, and the transfer of resources is probable. [...]" These paragraphs relate to binding arrangements in general, including situations where resources are received for internal use and where resources are received providing goods/service to others. While paragraphs 69 and 83 do not specifically state that the transfer of resources (that the entity cannot avoid) must be *to another party*, we do not consider that it is possible to transfer resources in some other way. We consider that the references to 'unavoidable transfer of resources to a third party' in the Illustrative Examples and BC paragraphs mentioned by the respondent are sufficiently supported by requirements in the authoritative part of the proposed standard. We do not recommend any further action.

Comments from respondents	XRB staff analysis
[4] Recommendation to add the concept of 'transfer liability' into ED PBE IPSAS 47, corresponding with 'transfer right asset' in ED PBE IPSAS 48. The resulting enhanced consistency between the two standards will improve clarity for preparers and simplify the consolidation process, as it would "eliminate unnecessary timing differences introduced by the new standards in public reporting". *(Public sector stakeholder, Comment #44)*	A 'transfer right asset' in ED PBE IPSAS 48 *Transfer Expenses* arises from a *transfer expense* with a binding arrangement. A transfer expense arises from a transaction, 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*. By contrast, a 'binding arrangement liability' in ED PBE IPSAS 47 arises from revenue transactions with a binding arrangement, *regardless of whether the entity provides goods or services directly in return for the resource received*. A 'transfer liability' corresponding with 'transfer right asset' per ED PBE IPSAS 48 would be a subset of 'binding arrangement liabilities'. Adding the concept of a 'transfer liability' into the proposed standard would require us to also define 'transfer revenue', from which a 'transfer liability' would arise. The IPSASB deliberately decided not to include the term 'transfer revenue' in IPSAS 47, as explained in paragraph BC38-39 of the IPSASB's BC (which the stakeholder acknowledged). The IPSASB noted that as a subset of revenue in IPSAS 47, the recognition and measurement requirements for 'transfer revenue' would be the same as other types of revenue in the scope of that standard, therefore adding this term into the standard would result in unnecessary complexity and duplication of guidance, and may confuse constituents. We agree with the IPSASB's reasoning. We also note that: • A transfer right asset in ED PBE IPSAS 48 arises only from transfer expense transactions *with* binding arrangements. If we add the term 'transfer liability' into the proposed standard to mirror 'transfer right asset' in ED PBE IPSAS 48, we would also need to consider defining and referring to some other type of liability to mirror assets arising from transfer expense transactions without a binding arrangement. This would add further complexity to the proposed standard. • In a transaction between two entities within the same consolidated group, the timing of revenue recognition under the proposed standard for one entity may not be the same as the timing of transfer expense recognition under ED PBE IPSAS 48 for the other entity – e.g. due to each entity using a different method to estimate the stage of completion of satisfying compliance obligations (e.g. due to differences in availability of information, difference in materiality, etc.). Adding the concept of

Comments from respondents	XRB staff analysis
	'transfer liability' into the proposed standard would not change this – and therefore may not achieve the simplification to the consolidation process that the stakeholder had in mind. We do not recommend adding the concept of 'transfer liability' into the proposed standard.
[5] Comments covered in NZASB discussions on the concept of a binding arrangement (April-June 2026): • Call for greater clarity, guidance and examples on the principles of 'binding arrangement' and 'enforceability' *(Public sector stakeholder, Comment #42)* • Consolidation challenges regarding eliminations *(Public sector representative, Comment #37)*	Please refer to the discussions at the: • NZASB April 2026 meeting, (page 35 of the public papers, comment #51 – discussed together with other general concerns on costs, judgement, time and resource implications of applying the binding arrangement principle). • NZASB June 2026 meeting, (page 11, of the public papers, comment #68 – discussed together with other general observations on the binding arrangement principle)

Recommendations

27. Based on the analysis above, we do not recommend further action with respect to the comments analysed in this section.

E	No further action required

Question for the Board:

Q4. Does the Board **AGREE** with our recommendations in Topic B4?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB - PBE Standards - Revenue

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Revenue: Analysis of other stakeholder feedback on the proposed requirements for revenue from transactions with and without binding arrangements**
Date:	11 November 2026
Prepared by:	Gali Slyuzberg
Through:	Carly Berry; Michelle Lombaard

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

Purpose[1]

1. The purpose of this agenda item is to analyse the feedback received from stakeholders ('respondents') on the proposed accounting requirements for revenue arising from transactions with and/or without binding arrangements in ED PBE IPSAS 47 *Revenue* ('the proposed standard'), which have not already been analysed in agenda items 8.2 and 8.3. This includes comments relating to specific revenue transactions that may be with or without a binding arrangement.
2. This paper covers respondents' feedback to Consultation Questions 3 and 4 – i.e. the questions on the accounting models for revenue with and without binding arrangements – as well as feedback on other questions that relate to one or both accounting models.
3. The analysis of feedback relating specifically to the revenue transactions without binding arrangements is in Agenda Item 8.2, and the analysis of feedback relating specifically to revenue transactions with binding arrangements is in Agenda Item 8.3.

Recommendation

4. We recommend that the Board **AGREES** with our recommended actions in response to respondents' feedback.

Summary of recommended actions

5. We recommend the following actions in relation to the feedback received:

Recommendation type (see agenda item 8.1)		Feedback to which recommendation applies
C	Adoption and implementation support	Accounting for multi-year grants Accounting for capital transfers and other capital grants

[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).

Recommendation type (see agenda item 8.1)		Feedback to which recommendation applies
E	No further action required	Application of the proposed standard to appropriations, council levies and charges, and other specific types of transactions (but action is recommended for more generalised transaction types – see above)

Structure of this agenda item

6. This memo contains the following sections:

   (a) Process followed to analyse stakeholder feedback

   (b) Part C: Feedback on revenue from specific transactions - may be with or without binding arrangements

   (c) Part D: Other comments on revenue with or without binding arrangements

Process followed to analyse stakeholder feedback

7. Refer to Agenda Item 8.1. An extract of Table 1 from that agenda item is set out below:

Topic	Number of comments	Paragraph ref
Part C: Revenue from specific transactions - may be with or without binding arrangements	**16**	9-12
Topic C1: Multi-year grants	2	
Topic C2: Capital grants	2	
Topic C3: Appropriations	5	
Topic C4: Council levies and charges	3	
Topic C5: Other specific transactions	4	
Part D: Other comments on revenue with or without binding arrangements	**6**	13-14
Topic D1: Principal vs agent	2	
Topic D2: Lack of clarity on rights and obligations in public sector arrangements	2	
Topic D3: Other comments on revenue with and without binding arrangements	2	
Total	**22**	

8. Agenda item 8.5 (Board-only paper) sets out all the comments received on the proposed requirements for revenue with and without binding arrangements, with each given a unique number for reference purposes.

Part C: Revenue from specific transactions – may be with or without binding arrangements

9. We identified 14 comments[2] relating to specific revenue transactions, which may be with or without binding arrangements (i.e. Topics C1-C5):

Topic: Comments on specific transactions **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
10	0	4
Comment #15, 45, 46, 47, 49, 50, 52, 55, 56, 62[3]	*N/A*	*Comment #48, 51, 53, 54*

Topic: Comments on specific transactions	
Respondent	**Number of comments**
Treasury	1
Auckland Council	2
Deloitte	1
Outreach feedback (and post-consultation feedback)	10
Total	**14**

Analysis and recommendations

10. Please note that while 'levies and other compulsory contributions' are described as revenue transactions without binding arrangements in the proposed standard, we note that based on stakeholders' feedback, it is possible that some levies may be subject to a binding arrangement. Therefore, we have included in this section comments on levies that were not raised specifically in the context of transaction without binding arrangements.

11. As a general comment, in considering how to address comments on specific types of transactions, we have applied the following thought process:

    (a) PBE Standards and the IPSAS that they are based on are principles-based standards, and as such, they generally do not prescribe requirements for specific transaction types – although they do sometimes provide application guidance on applying a specific aspect of the standard to a type of transaction.

    (b) Consistently, in the proposed standard there are specific requirements relating to the measurement of revenue from taxes in general – but not for specific types of

[2] Some comments among these 14 comments more than one topic, therefore the breakdown by topic on the previous page shows a higher number for Part C in total.

[3] The comment reference numbers refer to the list of comments in Agenda Item 8.5, which is available to NZASB members.

taxes. There are also authoritative Application Guidance (AG) paragraphs on applying certain aspects of the proposed standard to broad transaction types such as capital transfers, bequests, gifts, donations and fines – but no separate authoritative requirements on how to apply all the requirements in the proposed standard 'from start to end' to these transactions or specific sub-types of these transaction.

(c) We could add authoritative AG paragraphs into the proposed standard on the application of the revenue accounting requirements to the specific transactions in relation to which NZ stakeholders raised comments. However, in doing so, there would be a risk of departing from the IPSASB's authoritative requirements, which would make it more challenging for us and our NZ stakeholders to benefit from the IPSASB's new and upcoming implementation support initiatives. There is also a risk that increasing the length of the standard could make it more challenging to apply for stakeholders.

(d) In general, we consider that it is best to address comments on specific transactions through non-authoritative Illustrative Examples (IEs) and/or Implementation Guidance (IGs) that would accompanying the proposed standard. Having said this, we do not consider it feasible to develop illustrative examples on each type of transaction mentioned by stakeholders. It may be worth developing examples on transaction types that are highly common among New Zealand PBEs – with the caveat that such examples may not fully address the specific fact patterns faced by stakeholders.

(e) We also note that other stakeholders within the financial reporting 'ecosystem' – such as Treasury, the Audit Office and Charities Services – may be better placed to provide implementation support to PBEs with respect to applying the requirements of the standard to specific transactions, beyond the application and implementation guidance that can be feasibly provided in accounting standards.

12. The comments on specific transaction types are summarised in Table 1 below – grouped by transaction type – together with our recommendations.

Table 1 Revenue from specific transactions – may be with or without binding arrangements

Transaction type	Comments from respondents	XRB staff analysis
Comments on broad types of transactions		
Topic C1: Multi-year grants	• Multi-year grants is a complex area. It has been challenging to apply PBE IPSAS 23 in this area. Examples covering different scenarios, across binding and non-binding arrangements, from the perspective of the resource provider and resource recipient, would be useful. *(Comment #51, accounting firm)* • Significant implementation efforts expected due to breadth and diversity of revenue streams, which include multi-year grants [among other transaction types]. Assessing whether each arrangement is binding, enforceable, and contains a compliance obligation will require a substantial number of contract reviews. For multi-year grants, different judgements could be made under the requirements of the standard depending on the stage of the project. *(Comment #52, public sector stakeholder)*	We acknowledge that accounting for multi-year grants can be a challenging area and that requires the application of judgements under both the current and proposed requirements. We note that IG section E.1 in the proposed standard discusses multi-year arrangements. This IG section notes that, like for all other revenue transactions, entities would need to determine whether the arrangement is binding or not, and then determine whether assets should be recognised and the timing of revenue recognition, applying the relevant paragraphs in the proposed standard for transactions without and with binding arrangements respectively. IG section E.1 also highlights that: • Entities should "carefully consider revenue recognition independently from the timing of funding"; and • Entities "may need to consider whether any expected inflow of resources in subsequent years meets the definition of an asset, and whether it is interdependent and inseparable from any associated unsatisfied obligations in accordance with paragraph AG57". IG section E.1 is based on the equivalent IG section in IPSAS 47, which the IPSASB added in response to calls for guidance from stakeholders. In June 2024, in developing ED PBE IPSAS 47, the NZASB considered whether further guidance on multi-year arrangements is needed in addition to IG section E.1, as well as the IEs in IPSAS 47 that involve multi-year arrangements (see pages 297–299 of the June 2024 public papers). The NZASB considered at the time that this guidance is sufficient and decided not to add any further IGs or IEs on that topic. We continue to agree with this view – noting that it would be useful to highlight existing guidance in the proposed standard through implementation support activities. **C** Adoption and implementation support

Transaction type	Comments from respondents	XRB staff analysis
Topic C2: Capital grants	*Please note: While the term 'capital transfers' is specifically defined as a transaction with a binding arrangement in ED PBE IPSAS 47, a stakeholder raised a comment with respect to 'grants for capex', which may or may not be a binding arrangement. Therefore, we have included this topic in this section.* • It is not clear how "grants for capex" should be accounted for. Should revenue not be spread over the life of the asset? This is an issue for NFPs – could cause large surpluses and deficits that are hard to understand. *(Comment #53, stakeholder with interest in both the public and NFP sectors)* • There could be challenges in applying the standard to capital transfers. May require some support in terms of discussions, webinars. *(Comment #48, academic)*	As explained under Topic B4 (paragraph 26 in agenda item 8.3): • The proposed standard defines 'capital transfers' as "an inflow of cash or another asset that arises from a binding arrangement with a specification that the entity acquires or constructs a non-financial asset that will be controlled by the entity". There are authoritative AG paragraphs and non-authoritative IG paragraphs to explain that capital transfers are accounted for in the same way as other revenue transactions with binding arrangements. • If an entity receives funding to acquire or construct a non-financial asset in a transaction *without* a binding arrangement, the under paragraph 29 of the proposed standard, the entity recognises revenue as or when it satisfies any enforceable obligations that meet the definition of a liability, and if there are no such obligations, revenue is recognised immediately when the funds are recognised as an asset. We are considering whether to add an IE on revenue transactions without a binding arrangement where revenue is deferred due to enforceable obligations (see agenda item 8.2). These requirements are consistent with the PBE Conceptual Framework, in the sense that obligations that meet the definition and recognition criteria of a liability result in the recognition of a liability and lead to the deferral of revenue. These requirements are also consistent with NZ IFRS 15 in the for-profit sector, and reflects the latest international thinking on revenue recognition, both on the IASB's side and the IPSASB's side. We do not consider that changes to the proposed standard are needed with respect to the comments on capital grants – but as noted by one of the respondents, providing implementation support outside of the standard, e.g. in the form of webinars and roundtable discussions, could be beneficial. **C** Adoption and implementation support

Transaction type	Comments from respondents	XRB staff analysis
Comments on more specific types of transactions		
Topic C3: Appropriations (i.e. revenue from Crown funding in accordance with appropriations)	• A public sector stakeholder's submission included a fact pattern relating to revenue resulting from appropriations, i.e. revenue received by government departments and agencies in accordance with appropriations to fund Crown outputs – and the stakeholder's preliminary views on how to apply ED PBE IPSAS 47 to such revenue. In developing these preliminary views, the stakeholder noted certain areas of judgement, and that others may make different judgements and reach different conclusions. For example, one area of judgement related to whether arrangements for funding departments and agencies in accordance with appropriations creates enforceable compliance obligations for the department/agency. The stakeholder noted the expectation that this topic is debated with interested parties. *(Comment #42)* • Similarly, another public sector stakeholder noted that there are different views on how the ED might apply to appropriations, with ongoing conversations expected. *(Comment #46)* • A third public sector stakeholder raised a general question on how appropriations would be accounted for, and a further public sector stakeholder noted the importance of considering appropriations and the Public Finance Act 1987. *(Comment #45 and 50)* • There was a specific question on appropriations that are effectively funded by levies. Suppose	• In the proposed standard, the IPSASB-based IG paragraph B.3 discusses appropriations, noting that an appropriation does not on its own prove or refute the existence of enforceability. This guidance implies that revenue resulting from appropriations is not automatically with or without a binding arrangement. IG paragraph B.3 also notes that in a binding arrangement, funding can be subject to completing an appropriation process, and this term may or may not be substantive, which determines when the right to receive resources becomes enforceable, and therefore when the arrangement becomes binding. This is demonstrated by Illustrative Example 7. • During the development of ED PBE IPSAS 47, in August 2024 (see p.118 of the public NZASB papers), the NZASB considered whether to add NZ-specific guidance into the ED with respect to appropriations. Having considered different types of appropriations in NZ and discussed the matter with Treasury, XRB staff noted that the requirements and guidance in IPSAS 47 appear fit-for-purpose for accounting for revenue arising from appropriations – albeit the description of an appropriation should be amended for the NZ legislative context. The NZASB agreed *not* to add NZ-specific guidance into ED PBE IPSAS 47 with respect to appropriations (and that the description of an appropriation in IG B.3 should be amended for the NZ context). • We also note that Treasury and the Audit Office develop guidance for public sector entities on the application of accounting standards, and we understand that this will also be the case for the proposed standard. We consider that these stakeholders are best place to develop guidance on how to apply the requirements in the proposed standard to revenue arising from appropriations, including the specific questions and judgements raised by stakeholders in the left-hand column. • Regarding the Public Finance Act 1989 (PFA): In our understanding, a detailed consideration of how the proposed standard may interact with

Transaction type	Comments from respondents	XRB staff analysis
	Agency A receives funding from Ministry B through an appropriation, for Agency A to regulate entities in a certain industry – and this funding, *considered on its own*, is deemed to be a transaction *with* a binding arrangement. However, the *underlying source* of the funding that Ministry B provides to Agency A is a levy that Ministry B charges to the regulated entities – and the levy is considered *without* a binding arrangement. While the levy is charged by Ministry B and not Agency A, the funding received by Agency A under the appropriation is tightly linked to the levy charged by Ministry B. Does this link between the appropriation and underlying levy 'taint' Agency A's assessment of whether the revenue from the appropriation is with or without a binding arrangement? *(Comment #47)*	the requirements of the PFA is outside of our remit, and we are not aware of issues in this area that would require standard-setting action. **E** No further action required
Topic C4: Council levies and charges	Respondents called for more practical guidance and examples and/or noted expected implementation challenges with respect to the following council levies and charges: • Development contributions – charges that certain types of councils are permitted to levy on property owners and developers under the Local Government Act 2002, enabling them to "recover from those persons undertaking development a fair, equitable, and proportionate portion of the total cost of capital expenditure necessary to service growth over the long term" [Note: Development contributions are to be replaced by development levies under proposed government reforms]	Regarding the concern about applying the proposed standard to a large volume of council levies and charges: • This concern was covered in our papers on cost-benefit considerations – refer to the discussion under Topics 1 and 2 in agenda item 7.6. • Also, as noted in agenda item 7.4, we are proposing additional guidance for PBEs on considering the binding arrangement assessment for a large volume of transactions. That agenda item also mentions the 'portfolio approach' practical expedient that exists in the proposed standard, and that *we are considering expanding this practical expedient to revenue transactions without binding arrangements* (to be discussed at a future meeting). Regarding judgement with respect to enforceability: • The concept of enforceability was discussed by the NZASB in April-June 2026 as part of the feedback analysis on the concept of a binding

Transaction type	Comments from respondents	XRB staff analysis
	• Levies for water infrastructure/infrastructure growth charge • Waste levies • Other statutory charges Specific comments were made regarding: • Having to apply to proposed new revenue accounting requirements to the large number of different types of council charges; and • That for council levies/charges driven by legislation, it is difficult to make judgement calls around enforceability, and guidance in this regard would be useful. *(Comments #52 and 55 (public sector stakeholder), comments #54 (academic))*	arrangement. As part of this discussion, the NZASB agreed to relocate IG paragraph B.2 on enforceability into the Application Guidance, to assist entities through authoritative guidance in considering whether an arrangement is enforceable – and to cover enforceability in implementation and adoption support activities outside of the standard (see page 22-23 of the June 2026 NZASB papers). Regarding the call for practical examples: • As noted above, it is not feasible for us as the standard setter to develop IEs for every possible type of transaction. We consider that the principles of the proposed standard are generally sufficiently clear and there is enough guidance to apply the principles. • We have considered developing an IE on development contributions, as this is a common revenue stream for councils. However, as there are reforms underway to replace the development contribution mechanism, it may be more beneficial to wait until the replacement mechanism is in place or when the details of that mechanism have been confirmed, and consider developing an IE at that time. It is also possible that others within the financial reporting ecosystem, e.g. Audit Office, may develop guidance for councils in this area. We do not recommend developing an example on development contributions at this time. **E** No further action required
Topic C5: Other specific transaction types	Comments and questions were raised on the following transaction types: • Rate-regulated activities • Hairdresser licences (issued by councils) – is revenue recognised when the licence fee is received, or as the hairdressing business complies	• Rate regulated activities: See the discussion on this topic in the NZASB June 2026 papers (page 49-50 of the public papers). As noted in the June paper: "Our enquiries with the NZ Technical Reference Group, Treasury, and other public sector stakeholders did not identify any New Zealand public benefit entity arrangements that clearly give rise to regulatory assets or regulatory liabilities of the type addressed by IFRS 20. On that basis, while a conceptual gap exists in the IPSAS literature, it does not appear to be of practical significance in the New Zealand context at this

Transaction type	Comments from respondents	XRB staff analysis
	with the licence conditions, e.g. by keeping the premises clean? • Permits – compulsory charges, but the permit holder generally receives something in return for the fee, although usually the permit holder does not have an enforceable right, but sometimes such rights exist. Careful consideration will be required to determine whether the arrangement is binding or not. • Radio spectrum fees, passport fees and driver licence fees – treatment may depend on specific rights provided, and refunds may or may not be available. • Services in kind – may require some implementation support in terms of discussions and webinars. *(Comments # 15, 48, 56, 62)*	time". On this basis, we do not recommend specific action at this time. Having said this, at its October 2026 meeting, the Board indicated that staff should consider whether to develop a PBE Standard based on NZ IFRS 20 ahead of the IPSASB. Staff are yet to consider this. • Services in kind: the proposed standard permits but does not require entities to recognise revenue for services in kind. The ED also includes Application Guidance on accounting for services in kind, as well as Implementation Guidance adapted from PBE IPSAS 23. • Other transaction types: As noted above, it is not feasible for us as the standard setter to develop examples for every type of revenue transaction. Feedback on the concept of a binding arrangement was discussed by the NZASB in April-June 2026. As part of this discussion, the NZASB agreed to relocate IG paragraph B.2 on enforceability into the Application Guidance, to assist entities through authoritative guidance in considering whether an arrangement is enforceable – and to cover enforceability in implementation and adoption support activities outside of the standard. This should assist entities with assessing whether a transaction is a binding arrangement. **E** No further action required

Questions for the Board:

Q1. Does the Board **AGREE** with our recommendations in Table 1?

Part D: Other comments on revenue with or without binding arrangements

13. We identified 6 comments relating to the proposed accounting requirements for revenue transactions with or without binding arrangements, that do not specifically fit under Parts A–C (i.e. Topics D1-D3):

Topic: Other comments **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
3	0	3
(Comment #52, 59, 61)	*N/A*	*(Comment #57, 58, 60)*

Topic: Other comments	
Respondent	**Number of comments**
Treasury	1
Inland Revenue	1
Outreach feedback (and post-consultation feedback)	4
Total	**6**

Analysis and recommendations

14. The comments on other matters relating to the proposed requirements for revenue with and without binding arrangements are analysed in Table 2 below, and our recommendations are included.

Table 2 Other comments on revenue with or without binding arrangements

Comments from respondents	XRB staff analysis
Topic D1: Concerns about 'principal vs agent' considerations requiring significant judgement – noting that this is an issue under current standards as well. *(Comments #57, 58 – accounting firm representatives)*	The determination of whether an entity is a principal or an agent in a transaction is important because it affects: • The amount of revenue recognised by the entity in a transaction; and • The nature of its compliance obligation in a binding arrangement, and therefore the timing of revenue recognition. The proposed standard contains the following requirements and guidance relating to principal vs agent considerations: • *General* requirements: Paragraph 5 notes that amounts collected by an agent on behalf of a third party does not constitute revenue for the agent, due to lack of control

Comments from respondents	XRB staff analysis
	over the collected assets There is a similar existing requirement in PBE IPSAS 23. • Revenue *without* binding arrangements: Paragraph 39 explains that if an entity collects tax on behalf of other entities, the entity is acting as an agent and does not recognise the tax as revenue. There is a similar existing requirement in PBE IPSAS 23. • Revenue *with* binding arrangements: Paragraphs AG117–AG125 contain authoritative application guidance, aligned with IFRS 15, on principal vs agent considerations. A key consideration is whether the entity *controls* the specified goods or services before they are transferred to the purchaser or third-party beneficiary. The guidance in these paragraphs is more extensive the existing principal vs agent guidance in existing PBE Standards. As such, it should provide further assistance to PBEs when considering principal vs agent matters compared to existing guidance. We note that principal vs agent considerations under IFRS 15 can be challenging in the for-profit sector, which the Board and other international stakeholders noted when commenting on the IASB's post-implementation review of IFRS 15 in 2024. We acknowledge that similar challenges can arise under the IFRS 15-based principal vs agent requirements in the proposed standard. We note that the IASB plans to consider principal vs agent considerations with respect to services in its next Agenda Consultation. Rather than adding NZ-specific guidance on principal vs agent considerations, which may have unintended consequences, we recommend waiting to see the direction in which the IASB plans to go to address principal vs agent concerns. As PBEs prepare to apply the proposed standard, we can monitor application questions relating to principal vs agent and make a submission to the IAG if needed. **E** No further action required (at this time)
Topic D2: Rights, obligations and enforceability can be unclear and/or subject to change over time in public sector arrangements. • Rights and obligations associated with public sector activities tend to crystalise over time and may be contingent on	Regarding unclear terms in arrangements: • Arguably, there are operational benefit to PBEs from having clearer terms in their arrangements – and the adoption of the draft standards on Revenue and Transfer Expenses could be a good opportunity to identify unclear terms in existing arrangements and clarify. • It is also worth noting that for transactions with a binding arrangement, under paragraph 56 in the proposed standard, one of the criteria for applying the

Comments from respondents	XRB staff analysis
circumstances. Rights that can be relied on in stable circumstances sometimes may not be relied on in a crisis. • Some arrangements from which councils derive revenue have relatively loose terms. *(Comments #52 and 59 (public sector stakeholders))*	'five step model' is that the entity can identify each party's rights. If each parties' rights are not clear at the inception of the arrangement, then the 'five step model' cannot be applied, and instead the revenue recognition requirements in paragraph 58 are applied. However, the entity is required to continue assessing whether the criteria in paragraph 56 are met subsequently to the inception of the arrangement. This guidance can assist entities in situations where there is lack of clarity about rights and obligations at the inception of an arrangement that is expected to be binding. Regarding rights and obligations in public sector arrangements crystalising and changing over time: • The proposed standard includes requirements on the modification of binding arrangements – see the discussion under item [6] within Topic B3 in agenda item 8.3. These IFRS 15-based requirements and related guidance cover situations where the parties to the arrangement approve changes to the terms of the arrangement. • We acknowledge that, unlike for binding arrangements, the proposed standard does not include specific requirements on the modification of non-binding arrangements: However, we note that PBE IPSAS 3 covers changes in accounting estimates. Paragraph 39 says: "An estimate may need revision if *changes occur in the circumstances* on which the estimate was based or as a result of new information or more experience". Changes in the rights and obligations in a transaction without a binding arrangement, which lead to changes in the timing and amount of revenue recognition, are arguably covered by the requirements in PBE IPSAS 3 for changes in estimates. **E** No further action required
Topic D3: Other comments A stakeholder noted that it does not seem accurate to recognise all revenue once received for large donations and grants *(Comment #60, academic)*	The proposed standard requires revenue from grants and donations to be recognised immediately when received if: • The grant or donation is not a binding arrangement and there are no enforceable obligations associated with the grant/donation funding received; or • The grant or donation is a binding arrangement and the entity has fully satisfied its compliance obligation(s) upon receiving the funds. In both of these cases, the entity does not have obligations associated with the inflow of resources that meet the definition of a liability, therefore immediate recognition of revenue is consistent with the Conceptual Framework.

Comments from respondents	XRB staff analysis
	If the entity has unfulfilled enforceable obligations when receiving grant or donation funds, the proposed standard requires revenue to be deferred, rather than immediate recognition. We consider that the matters explained above are sufficiently clear in the proposed standard. **E** No further action required
Recommendation to refer to 'transaction consideration received or receivable' throughout ED PBE IPSAS 47. For example, paragraph 34 refers to 'consideration received or receivable', rather than '*transaction* consideration' – suggest to change this to '*transaction* consideration received or receivable' for clarity and consistency. *(Comment #61, public sector stakeholder)*	The term 'transaction consideration' is defined in the proposed standard, whereas the term 'consideration' by itself is not. There are several instances throughout the proposed standard where the term 'consideration' is used on its own, rather than the term 'transaction consideration'. While we acknowledge the respondent's comment, it does not seem that the reference to 'consideration' without 'transaction' is causing confusion to the respondent, and in the absence of comments from other stakeholders about confusion in this matter, we recommend retaining the existing IPSAS 47-based wording in the proposed standard. As noted under Topic A2 in agenda item 8.2, there is some confusion in relation to whether tax revenue is measured at the transaction consideration or at the best estimate of inflow of resources/fair value, and IPSASB staff are considering how to clarity this. **E** No further action required

Question for the Board:

Q2. Does the Board **AGREE** with our recommendations in Table 2?

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZASB – PBE Standards – Transfer expenses

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**PBE Transfer Expenses: Analysis of stakeholder feedback on the proposed requirements for transfer expense transactions with and without binding arrangements**
Date:	11 November 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 analyse feedback received from stakeholders ('respondents') on the proposed accounting requirements for transfer expenses arising from transactions with or without binding arrangements ('the accounting models') in ED PBE IPSAS 48 *Transfer Expenses* ('the proposed standard').
2. Agenda item 7 addresses feedback relating to the benefits and costs of the accounting models.

Recommendation

3. We recommend that the Board **AGREE** with our recommended actions in response to respondents' feedback.

Summary of recommended actions

4. We recommend the following actions in relation to the feedback received:

Recommendation type		Feedback to which the recommendation applies
A	Addition/amendment to **authoritative text** within the proposed standard	• Amend paragraph 4(e) so that readers are referred to PBE IPSAS 28, not PBE IPSAS 41.
C	Adoption and implementation support	• Accounting for multi-year arrangements.
E	No further action	• The conceptual bases for each of the accounting models. • The nature of a transfer right asset and a transfer obligation liability. • Measurement of expenses and liabilities under both accounting models.

		• Allocation of transfer consideration under a binding arrangement. • Determining substantive conditions. • Assets arising from transactions without binding arrangements. • Implications of appropriations for transfer expense accounting. • general observations on the application of the accounting models, as well as a question relating to the accounting for grants paid.

Structure of this agenda item

5. This memo contains the following sections:

   (a) Overview of the transfer expense accounting models

   (b) Feedback included in the analysis

   (c) Process followed to analyse the feedback

   (d) Part A: Transfer expenses from transactions with binding arrangements

   (e) Part B: Transfer expenses from transactions without binding arrangements

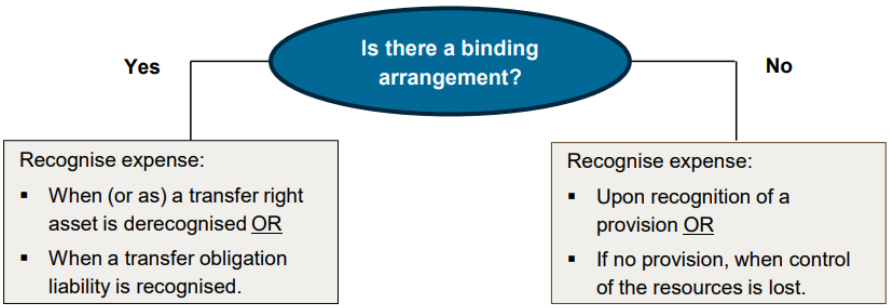
   (f) Part C: Transfer expenses from transactions that may be with or without binding arrangements

   (g) Next steps

Overview of the transfer expense accounting models

6. The accounting for transfer expenses is determined by whether there is a binding arrangement. As a reminder: A **binding arrangement** is an *arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the arrangement*[1].

7. The diagram below provides an overview of the two models.



[1] For a further overview of the binding arrangement principle, please refer to pages 33 – 34 of the April 2026 NZASB public board pack.

Feedback included in the analysis

8. We identified 56 comments from respondents relating to the accounting models. The comments largely relate to the following consultation questions (CQs):

   (a) **CQ 3** – concerning transfer expense recognition for transactions **with** binding arrangements.

   (b) **CQ 4** – concerning transfer expense recognition for transactions **without** binding arrangements.

9. CQs 3 and 4 specifically relate to **recognition**. However, for ease of analysis, we have allocated comments relating to **measurement** of transfer expense transactions to these CQs as well.

10. We have also included responses to other CQs in the analysis, where they relate to recognition and measurement of transfer expenses. Comments relating to other aspects of the accounting models (e.g. presentation and disclosure) will be addressed separately at a future meeting.

Process followed to analyse the feedback

11. The analysis is split into three parts, with each part further segmented into topics:

Table 1 – 56 comments grouped according to subject matter

Topic	Number of comments	Agenda item / Para ref in this memo
Part A: Transfer expenses from transactions *with* binding arrangements	**20**	
Topic A1: Support for the model	5	14-15
Topic A2: Nature of a transfer right asset	3	16-22
Topic A3: Measurement of expenses and liabilities	2	23-27
Topic A4: Benefits and costs of the model	5	Refer to agenda item 7
Topic A5: Binding arrangement principle	2	Paragraphs 16-18 and 27-29 in agenda item 8.1a (June 2026)
Topic A6: Other comments on the requirements of the model	3	28-41
Part B: Transfer expenses from transactions *without* binding arrangements	**29**	
Topic B1: Support for the model	3	42-43
Topic B2: Accounting for social benefit transactions	9	To be considered at a future meeting
Topic B3: Determining whether a legal or constructive obligation exists	5	
Topic B4: Proposed guidance in PBE IPSAS 19	7	

Topic	Number of comments	Agenda item / Para ref in this memo
Topic B5: Benefits and costs of the model	3	Refer to agenda item 7
Topic B6: Other comments on the requirements of the model	2	44-51
Part C: Transfer expenses from transactions which may be *with or without* binding arrangements	**7**	
Topic C1: Specific transactions	4	52-59
Topic C2: Other comments	3	60-63
Total	**56**	

Note:

- *A single comment from a stakeholder may be split among two or more topics.*
- *A respondent may have made several comments relating to the same topic.*

Table 2 – Options for recommended actions

A	Addition/amendment to **authoritative text** within the proposed standard (i.e. core text or Application Guidance paragraphs)
B	Addition/amendment to **non-authoritative text** within the proposed standard (i.e. Implementation Guidance paragraphs, illustrative examples, Basis for Conclusion paragraphs)
C	Adoption and implementation support
D	Refer to the IPSASB Application Group
E	No further action required

12. Agenda item 10.3 sets out all the comments, in detail, that are included in the analysis. We have given each comment a unique number so that the Board can refer to that agenda item as necessary.

13. The results of the field testing with a public sector participant are included in agenda item 10.4 (Board-only paper). None of those findings affect the analysis and recommendations presented in this agenda item.

Part A: Transfer expenses from transactions *with* binding arrangements

Topic A1: Support for the model

14. We identified 5 comments indicating general support for, or indicating no challenge with, the proposed accounting model for transfer expenses from transactions with binding arrangements.

Topic: Support for the model **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
4	0	1
Comment #2, 9, 14, 15	*n/a*	*Comment #17*

Topic: Support for the model	
Respondent	**Number of comments**
CAANZ	1
Auckland Council	1
Treasury	1
Outreach feedback	2
Total	**5**

Analysis and recommended action

15. Based on this feedback, we have **not** identified any reasons to recommend a fundamental change in the conceptual basis for this model. Concerns about specific aspects of the model are addressed in other topics in Part A.

E	No further action required

Question for the Board:

Q1. Does the Board **AGREE** with the recommendation in Topic A1?

Topic A2: Nature of a transfer right asset

16. Paragraph 6 of the proposed standard states that *A transfer right asset is the asset recognised for the existence of one or more transfer rights arising from a binding arrangement.* Paragraph AG9 elaborates further on the nature of a transfer right asset:

An entity's transfer right is the enforceable right to have the transfer recipient satisfy its obligations and arises where the entity has transferred resources to the transfer recipient in accordance with a binding arrangement prior to the transfer recipient satisfying its obligations within the binding arrangement. A transfer right asset is not a good, service, or

other asset to be directly received by the entity in return for transferring resources to the transfer recipient because:

(a) A transfer right asset is not a good or service.

(b) The transfer right asset arises because of timing differences between the satisfaction of respective obligations in a binding arrangement, not as a result of any transfer to the entity.

(c) The transfer right asset is not consideration to be provided by the transfer recipient in return for the entity transferring resources to the transfer recipient. It is the enforceable right for the satisfaction by the transfer recipient of its obligations in the binding arrangement.

17. We identified 3 comments on the nature of a transfer right asset.

Topic: Nature of a transfer right asset **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
3	0	0
Comment #4, 7 and 19	*n/a*	*n/a*

Topic: Nature of a transfer right asset	
Respondent	**Number of comments**
Audit Office	1
Outreach feedback	2
Total	**3**

Analysis

18. A public sector respondent noted that, conceptually, a transfer right asset meets the definition of an asset and is similar to a prepayment in an exchange transaction. However, in the New Zealand public sector, they consider there may be limited situations where the arrangement would meet the definition of a binding arrangement giving rise to transfer right assets.

19. A second public sector respondent questioned whether a transfer right asset represents a financing or leasing arrangement (or a financial instrument) and notes that the proposed standard does not explicitly state whether this is the case. While we acknowledge this point, we consider that there is sufficient guidance in the proposed standard to assist entities in understanding the nature of a transfer right asset:

(a) Paragraph 4 states that the proposed standard does not apply to leases as defined in PBE IPSAS 13 *Leases*.

(b) Paragraph 26 states that *where the entity has an enforceable and unconditional right to the receipt of cash or other financial assets arising from the terms of the binding arrangement, the legal system in the jurisdiction, and/or other*

circumstances, the entity shall ***derecognise the transfer right asset and recognise a financial asset***. It is therefore clear that a transfer right asset is not a financial asset. Paragraph 4(e) also states that the proposed standard does not apply to financial instruments (including concessionary loans) as defined in PBE IPSAS 41 *Financial Instruments*.

(c) The guidance in paragraph AG9 (see paragraph 16 of this memo).

(d) Paragraph 46 requires an entity to present a transfer right asset in accordance with the presentation guidance for prepayment assets in PBE IPSAS 1 *Presentation of Financial Reports,* implying that the nature of a transfer right asset is similar in substance to a prepayment.

20. The second public sector respondent wanted to know whether a transfer right asset could be called a prepayment. As noted above, a transfer right asset is similar in substance to a prepayment. In agenda item 7.6, we have recommended adding paragraph 6.1 to the proposed standard, stating that entities can use an alternative description for terms such as 'transfer right asset'.

Recommended action

E	No further action required beyond the recommendation to add paragraph 6.1 to the proposed standard (as recommended in agenda item 7.6)

Identification of an incorrect reference to a PBE Standard

21. While addressing feedback in paragraph 19, we noted that paragraph 4(e) refers to financial instruments as defined in **PBE IPSAS 41** ***Financial Instruments***. However, the definition of a financial instrument is in **PBE IPSAS 28** ***Financial Instruments: Presentation***.

Recommended action

A	Amend paragraph 4(e) so that readers are referred to PBE IPSAS 28, not PBE IPSAS 41

22. As this is an error originating from IPSAS 48, we will also inform IPSASB staff.

Question for the Board:

Q2. Does the Board **AGREE** with the recommendations in Topic A2?

Topic A3: Measurement of expenses and liabilities

23. Paragraphs 30-43 in the proposed standard relate to measurement of assets, liabilities and expenses arising from transactions with binding arrangements. We identified two comments relating to measurement of expenses and liabilities under this accounting model.

Topic: Measurement of expenses and liabilities Comments by sector		
Public sector	**Not-for-profit**	**Both**
2	0	0
Comment #6 and 16	*n/a*	*n/a*

Topic: Measurement of expenses and liabilities	
Respondent	**Number of comments**
Auckland Council	1
Outreach feedback	1
Total	**2**

Analysis

24. A public sector respondent observed that practical challenges in applying the proposed standard include measuring liabilities where outcomes or entitlements are uncertain. We acknowledge this comment while noting that paragraphs 35-37 in the proposed standard include guidance for variable consideration (i.e. where the consideration varies for items such as discounts, incentives, etc or if the entity's obligation to transfer the resources is contingent on the occurrence or non-occurrence of a future event). We consider the content of those paragraphs to be sufficient to assist entities in accounting for variable consideration, especially in situations where such consideration meets the definition of a provision in PBE IPSAS 19 *Provisions, Contingent Liabilities and Contingent Assets*.

25. Another public sector respondent noted that the reference to 'carrying value' in the measurement requirements under this accounting model is vague, as 'carrying value' could refer to fair value or amortised cost:

    (a) Paragraph 31 states that *when an entity transfers resources to a transfer recipient prior to the transfer recipient starting to satisfy its obligation, the entity shall, at recognition, measure the resulting transfer right asset at the* ***total carrying amount*** *of the resources which have been transferred in accordance with the binding arrangement*.

    (b) Paragraph 33 states that *when the transfer recipient has satisfied its compliance obligations and the entity has not yet transferred its resources as required by the binding arrangement, the entity measures its transfer obligation liability at the* ***total carrying amount*** *of the resources which the entity is obligated to transfer in accordance with the binding arrangement*.

26. We consider that specifying in the proposed standard whether the resources are measured at fair value or amortised cost prior to transfer is not necessary, as the carrying amount of the resources transferred/to be transferred is determined based on the relevant PBE Standard that applies to the resource up until it is transferred. For example, if the entity is transferring a PP&E asset, then the carrying amount of the transferred asset would be determined under PBE IPSAS 17/PBE IFRS 5.

27. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

Question for the Board:

Q3. Does the Board **AGREE** with the recommendation in Topic A3?

Topic A4: Benefits and costs of the model

[comment #1, 8, 12, 13 and 18 – refer to agenda item 7.5 and Topics 2, 6 and 7 in agenda item 7.6]

Topic A5: Binding arrangement principle

[comment #10 and 11 – refer to paragraphs 16-18 and 27-29 in agenda item 8.1a (June 2026)]

Topic A6: Other comments on the requirements of the model

28. The 3 comments within this topic relate to sub-topics containing only one comment:

(a) Nature of a transfer obligation liability

(b) Allocation transfer consideration

(c) Determining substantive conditions within a binding arrangement

Topic: Other comments on the requirements of the model **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
3	0	0
Comment #5, 20 and 21	*n/a*	*n/a*

Topic: Other comments on the requirements of the model	
Respondent	**Number of comments**
Auckland Council	2
Outreach feedback	1
Total	**3**

Analysis

Nature of a transfer obligation liability

29. Paragraph 4 of the proposed standard states that a transfer obligation liability *is the liability recognised for the existence of one or more transfer obligations arising from a binding arrangement. A transfer obligation is an entity's obligation in a binding arrangement to transfer resources in a specified manner*.

30. A public sector respondent questioned whether a transfer obligation liability represents a financing arrangement (and is a financial instrument) and notes that the proposed standard does not explicitly state whether this is the case.

31. A transfer obligation liability does not represent a financing arrangement, in the sense that the transfer provider is not lending funds to the transfer recipient and expecting repayment. We acknowledge that this is not explicitly mentioned in the proposed standard, but the nature of this liability is evident from the definition noted in paragraph 4 of the proposed standard.

32. However, a transfer obligation liability is a financial liability if the transfer provider is required to transfer cash under the terms of the binding arrangement. Paragraph 56 of the proposed standard states that the disclosure requirements in PBE IPSAS 30 *Financial Instruments: Disclosures* are applicable to such liabilities as they meet the definition of financial liabilities measured at amortised cost.

33. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

34. We note that paragraphs 30-43 of the proposed standard (concerning measurement under this accounting model) do not explicitly state that a transfer obligation liability is subsequently measured at amortised cost, when the obligation is to transfer cash. We intend to discuss this with IPSASB staff to clarify:

    (a) Whether the IPSASB's intention was that the measurement requirements in IPSAS 41 apply to transfer obligation liabilities that involve an obligation to pay cash in a binding arrangement; and

    (b) If the answer is yes – how this interacts with the scope exclusion for financial instruments in the proposed standard (in particular, at what point the entity stops applying the proposed standard and starts applying IPSAS 41).

35. Although we intend to bring this to IPSASB staff's attention, we do not consider that there will be confusion around the scope of the proposed standard with regard to this matter, especially as no respondents have raised a concern with the absence of subsequent measurement requirements for these types of transfer obligation liabilities.

Question for the Board:

Q4. Does the Board **AGREE** with the recommendation in paragraph 33 of this memo?

Allocation of transfer consideration

36. A public sector respondent noted that practical challenges include allocating expenses across multiple performance obligations. We acknowledge that, from the transfer provider's perspective, the allocation of transfer consideration across multiple transfer rights is an area of judgement. However, we consider the proposed standard has sufficient guidance to assist in making this judgement:

    (a) Paragraphs 38-39 and AG50-AG51 explain how to perform this allocation.

    (b) Example 10 demonstrates the allocation of transfer consideration to multiple transfer rights.

37. We have not heard concerns on this topic from any other stakeholders, indicating that a scenario where such allocation is required may be uncommon.

38. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

Question for the Board:

Q5. Does the Board **AGREE** with the recommendation in paragraph 38 of this memo?

Determining substantive conditions

39. A public sector respondent noted that practical challenges include distinguishing substantive conditions from administrative or reporting requirements. We acknowledge that this is an area of judgement. However, we consider the proposed standard has sufficient guidance to assist in making this judgement:

    (a) Paragraphs 21 and A31-AG34 provide guidance on how to identify transfer rights. We note the emphasis on 'distinct' transfer rights – that is, one that can be enforced separately from other rights in the binding arrangement.

    (b) Example 5 demonstrates an assessment of whether goods or services are distinct. We note the importance of considering the context of the overall arrangement in determining whether an individual transfer right is distinct.

40. Another public sector entity performed field testing on the proposed standard. From our analysis of their agreements with transfer recipients, we noted reporting requirements for the recipient of the funding (e.g. annual reports, etc). We observed that these reporting

requirements were part of the entity's monitoring and enforcement of the recipient's performance. We consider that the application of the guidance identified above is likely to be sufficient for the entity to determine whether these reporting requirements are distinct transfer rights within the context of the arrangement as a whole.

41. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

Question for the Board:

Q6. Does the Board **AGREE** with the recommendation in paragraph 41 of this memo?

Part B: Transfer expenses from transactions *without* binding arrangements

Topic B1: Support for the model

42. We identified 3 comments indicating general support for, or indicating no challenge with, the proposed accounting model for transfer expenses from transactions without binding arrangements.

Topic: Support for the model Comments by sector		
Public sector	**Not-for-profit**	**Both**
2	0	1
Comment #29 and 30	*n/a*	*Comment #27*

Topic: Support for the model	
Respondent	**Number of comments**
CAANZ	1
Auckland Council	1
Audit Office	1
Total	**3**

Analysis and recommended action

43. Based on this feedback, we have **not** identified any reasons to recommend a fundamental change in the conceptual basis for this model. Concerns about specific aspects of the model are addressed in other topics in Part B.

E	No further action required

Question for the Board:

Q7. Does the Board **AGREE** with the recommendation in Topic B1?

Topics B2: Accounting for social benefit transactions

[comment #2-35, 37, 38, 47, 48 and 51] – to be addressed at a future meeting]

Topic B3: Determining whether a legal or constructive obligation exists

[comment #26, 28, 36, 46 and 49 – to be addressed at a future meeting]

Topic B4: Proposed guidance in PBE IPSAS 19

[comment #39-45 – to be addressed at a future meeting]

Topic B5: Benefits and costs of the model

[comment #22, 23 and 25 – refer to Topics 4, 6 and 8 in agenda item 7.6]

Topic B6: Other comments on the requirements of the model

44. The 2 comments within this topic relate to sub-topics containing only one comment:

    (a) Assets arising from transactions without a binding arrangement

    (b) Measurement of expenses and liabilities

Topic: Other comments on the requirements of the model **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
1	0	1
Comment #24	*n/a*	*Comment #31*

Topic: Other comments on the requirements of the model	
Respondent	**Number of comments**
Deloitte	1
Outreach feedback	1
Total	**2**

Analysis

Assets arising from transactions without a binding arrangement

45. One respondent noted that assets arising from transfers without a binding arrangement is referenced in Implementation Guidance (IG) paragraph C.1 but not explained further so it would be beneficial to include an example.

46. IG paragraph C.1 states that it is possible for the transfer provider to have an enforceable right but no enforceable obligation – and therefore, the transfer would result in the recognition of an asset which would be derecognised when or as the enforceable right is extinguished. This asset would not be a transfer right asset because there is no binding arrangement. There is currently no example in the proposed standard to illustrate this scenario.

47. This comment is very similar to another comment from the same respondent, which the Board considered at the June 2026 meeting (see agenda item 8.1a paragraphs 39-41 starting on page 19 of the public Board pack from this meeting). The Board agreed with our recommendation not to take any further action, as it does not seem to be a common scenario for an entity to have an enforceable right but no enforceable obligation.

48. We also noted at the June meeting that we would seek more information on real-life scenarios where a transfer provider has an enforceable right to the transfer recipient's performance, but not an enforceable obligation to provide funding. As at the date of this memo, we have not identified any such scenarios from discussions with NZ stakeholders.

Recommended action

E	No further action required

Question for the Board:

Q8. Does the Board **AGREE** with the recommendation in paragraph 48 of this memo?

Measurement of expenses and liabilities

49. A public sector respondent noted that the reference to 'carrying value' in the measurement requirements under this accounting model is not that 'straightforward'. Paragraph 20 of the proposed standard states that *when an entity recognises an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resources*.

50. Similar to our analysis in Topic A3, we consider that specifying whether the resources are measured at fair value or amortised cost prior to transfer is not necessary as the carrying amount of the resources transferred/to be transferred is determined based on the relevant PBE Standard that applies to the resource up until it is transferred. For example, if the entity is transferring a PP&E asset, then the carrying amount of the transferred asset would be determined under PBE IPSAS 17/PBE IFRS 5. We have received no other comments on the requirements in paragraph 20 that suggest a lack of clarity.

51. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

Question for the Board:

Q9. Does the Board **AGREE** with the recommendation in paragraph 51 of this memo?

Part C: Transfer expenses from transactions that may be *with or without* binding arrangements

Topic C1: Specific transactions

52. We identified 4 comments relating to two specific scenarios that could result in transfer expense transactions with or without binding arrangements – those involving appropriations and multi-year funding.

Topic: Specific transactions **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
3	0	1
Comment #3, 55 and 56	*n/a*	*Comment #54*

Topic: Specific transactions	
Respondent	**Number of comments**
Treasury	1
Deloitte	1
Outreach feedback	1
Post-consultation meetings with respondents	1
Total	**4**

Analysis

Appropriations

53. There are three comments from respondents relating to appropriations.

    (a) Two of these comments note that there should be no conflicts / mismatch between the proposed standard and the requirements of the Public Finance Act 1989 (PFA). One respondent questioned whether a capital appropriation would be required for a transfer expense transaction that results in recognition of a transfer right asset. Another respondent noted that the requirements in the proposed standard could give rise to additional compliance under the PFA.

    (b) As part of its submission, another public sector respondent included an example, and its preliminary view, of the application of the proposed standards to Crown funding of entities' outputs in accordance with appropriations. The respondent noted in the submission that it expects to debate its preliminary conclusions with interested parties. Once this has occurred, the respondent noted that it would be in a better position to propose improvements so that both proposed standards provide sufficient clarity for practical application.

54. While we acknowledge these comments, we do not recommend taking any further action in response, for the following reasons:

(a) From a standard setting perspective, the implications of the PFA when accounting for transfer expenses under the proposed standard is beyond our remit.

(b) The Board considered the topic of appropriations when drafting the proposed standard. Implementation Guidance B.3 in the proposed standard discusses the implications of appropriations on the accounting for transfer expenses. The Board agreed to amend the IPSAS 48 description of appropriations so that there is consistency with its assigned meaning under New Zealand legislation, specifically per the Public Finance Act 1989. Example 4 in the proposed standard also provides some additional guidance. As at the date of this memo, the respondent has not yet communicated any proposed improvements in this area to us, nor have any other stakeholders.

55. We consider the principles in the standard to be sufficient and no further drafting is required.

Recommended action

E	No further action required

Question for the Board:

Q10. Does the Board **AGREE** with the recommendation in paragraph 55 of this memo?

Multi-year grants

56. One respondent noted that multi-year grants is a complex area that has been challenging for entities to apply under PBE IPSAS 23 *Revenue from Non-Exchange Transactions* – examples covering several scenarios (across binding and non-binding agreements) from the perspective of the provider and the recipient would be useful.

57. We acknowledge that accounting for multi-year grants can be a challenging area and that requires the application of judgements under both the current and proposed requirements.

58. We note that IG section G.1 in the proposed standard discusses multi-year arrangements. This IG section notes that, like for all other transfer expense transactions, an entity considers whether there is a binding arrangement and applies the relevant paragraphs in the proposed standard for transactions without and with binding arrangements respectively. IG section G.1 is based on the equivalent IG section in IPSAS 48, which the IPSASB added in response to calls for guidance from stakeholders.

59. In June 2024, in developing the proposed standard, the NZASB considered whether further guidance on multi-year arrangements is needed in addition to IG section G.1 and Example 11 in IPSAS 48 (where a multi-year arrangement is implied) (see pages 297–299 of the June 2024 public papers). The Board considered at the time that this guidance is sufficient and decided not to add any further IGs or IEs on that topic. We continue to

agree with this view – noting that it would be useful to highlight existing guidance in the proposed standard through implementation support activities.

Recommended action

C	Adoption and implementation support

Question for the Board:

Q11. Does the Board **AGREE** with the recommendation in paragraph 59 of this memo?

Topic C2: Other comments

60. The 3 comments within this topic concern general observations on the application of the accounting models, as well as a question relating to the accounting for grants paid.

Topic: Other comments **Comments by sector**		
Public sector	**Not-for-profit**	**Both**
2	1	0
Comment #52 and 53	*Comment #50*	*n/a*

Topic: Other comments	
Respondent	**Number of comments**
Treasury	1
Outreach feedback	2
Total	**3**

Analysis

61. In summary:

(a) In one respondent's view, transfer expenses is very similar to revenue - most contracts of this type typically require funds to be used for operational expenditure, sponsorship, community services, etc, while the entity recognises the funding for expenditure when spent.

(b) A public sector respondent noted that revenue and expense recognition (particularly in the absence of contracts) have been problematic in the past. Rights and obligations associated with public sector activity tend to crystallise over time and may be contingent on circumstances. Reporting rights and obligations and the consequent revenue and expenses can therefore be challenging.

(c) Another respondent questioned the timing of expense recognition for grants to creative communities and organisations undertaking building improvements.

62. We acknowledge these comments, while noting that the Board has agreed to provide adoption and implementation support to assist entities in applying the binding

arrangement principle (which includes identifying enforceable rights and obligations). We also note that paragraphs 27-29 of the proposed standard include guidance relating to the modification of binding arrangements (where a modification either creates new enforceable rights and obligations, or changes the existing enforceable rights and obligations).

63. Regarding the question noted in (c) above – the answer depends on whether the arrangement is binding. We do not consider the question to require any guidance in addition to what is already in the proposed standard.

Recommended action

E	No further action required

Question for the Board:

Q12. Does the Board **AGREE** with the recommendation in Topic C2?

Next steps

64. At a future meeting, we plan to discuss with the Board feedback relating to the following aspects of the proposed standard:

    (a) Accounting for social benefit transactions

    (b) Presentation and disclosure;

    (c) Transition;

    (d) Illustrative Examples – suggested amendments to make the examples more New Zealand-specific; and

    (e) Any 'sweep issues' arising from Board discussions at this meeting and/or previously.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**International Influence – IASB projects and ASAF update**
Date:	11 November 2026
Prepared by:	Nimash Bhikha
Through:	Michelle Lombaard

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

Purpose[1]

1. The purpose of this agenda item is to provide the Board with an update on the International Accounting Standards Board's (IASB's) projects and upcoming Accounting Standards Advisory Forum (ASAF) discussions.

2. As per the XRB's 2025-30 Statement of Intent, we enable trust and confidence in the external reporting system by setting high-quality standards that are internationally credible and locally relevant.

3. The XRB's proactive international engagement allows us to build credibility and influence both the international standard-setting agenda and the standards as they are set. the ASAF appointment provides an opportunity to positively influence IFRS international standards so that the New Zealand context is well considered early in their development.

4. We highlight this to the Board to allow board members to reach out to Nimash if they are interested in a project or if they have specific contributions to make in our preparation. In conjunction with our other outreach with stakeholders on the projects (including our Technical Reference Group) any comments will help shape our international influence.

Recommendations

5. We recommend the Board **NOTE** the update on the status of significant active IASB projects that are expected to result in new or amended IFRS Accounting requirements or requiring substantive NZASB stakeholder engagement and ASAF discussions and **PROVIDE FEEDBACK**, where relevant.

6. We invite the Board and any interested party to reach out should they want to provide input.

[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).

IASB projects update

7. The following table outlines the IASB's current projects and status, with hyperlinks to the IASB's relevant project page.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
1	Amortised Cost Measurement **Standard-Setting Project**	IFRS 9 *Financial Instruments*	Narrow-scope amendments to clarify and provide additional application guidance about requirements related to the effective interest method and the modification and derecognition of financial assets and financial liabilities. The project aims to respond to the PIR of IFRS 9 and reduce diversity in practice by clarifying amortised cost measurement requirements; and clarify intersections between amortised cost requirements and impairment requirements.	**Issue Exposure Draft** – 2027	The IASB is developing the proposed amendments. In September 2026, it considered the 10% derecognition test, the effective interest rate for modified financial instruments, and the treatment of costs and fees associated with modifications. In October 2026, the IASB considered the measurement of financial liabilities arising from contingent settlement provisions. It tentatively decided that such a liability would be measured, both initially and subsequently, at an amount not less than the transaction price, being the fair value of the consideration received for the financial instrument as a whole. The IASB will continue deliberating issues within the scope of the project. It expects to consider the interaction between modification, derecognition and impairment from December 2026, followed by other matters, including the disclosure implications of its tentative decisions. An Exposure Draft remains expected in 2027.
2	Business Combinations—Disclosures, Goodwill and Impairment **Standard-Setting Project** **XRB submitted comment letter:** here	IFRS 3 *Business Combinations* IAS 36 *Impairment of Assets*	New requirements and disclosures around performance of business combinations and impairment test amendments, to provide more useful information to users about business combinations, at a reasonable cost. The project aims to respond to the PIR of IFRS 3 and improve stakeholders' information around performance of acquisitions, impairment tests and amortisation of goodwill.	**Decide Project Direction (Post-ED)** – 2027	The IASB continues to redeliberate the March 2024 Exposure Draft. In September 2026 it considered the information an entity should be required to disclose about the subsequent performance of a business combination, although no decisions were made at that meeting. The IASB will consider whether the proposals should be re-exposed through an updated Exposure Draft in 2027.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
3	Equity Method **Standard-Setting Project** **XRB submitted comment letter:** here	IAS 28 *Investments in Associates and Joint Ventures*	Narrow-scope amendments to clarify how to apply the equity method of accounting by answering application questions the IASB has received over several years, and new disclosure requirements that will enhance the information companies provide about these investments. The project aims to reduce diversity in practice by answering application questions on the equity method of accounting and improve the understandability of IAS 28.	**Issue Final Amendments (Post-ED)** – H1 2027	The IASB completed its technical deliberations in September 2026 and agreed to begin balloting the revised IAS 28. The revised Standard will address initial measurement, changes in ownership interests and transactions with associates and joint ventures, together with improved disclosures. The IASB expects to issue the revised IAS 28 in H1 2027, with an effective date of 1 January 2029.
4	Financial Instruments with Characteristics of Equity **Standard-Setting Project** **XRB submitted comment letter:** here	IAS 32 *Financial Instruments: Presentation* IFRS 7 *Financial Instruments: Disclosures* IFRS 18 *Presentation and Disclosure in Financial Statements*	New requirements and disclosures to improve underlying classification principles in relation to complex financial instruments which have both financial liability and equity characteristics. The project aims to improve the information about financial instruments and to address practical challenges.	**Issue Final Amendments (Post-ED)** – H2 2027	The IASB continues to redeliberate the ED. In September 2026 it considered obligations to purchase an entity's own equity instruments, including the initial debit entry, subsequent remeasurement and measurement of the financial liability, and made further tentative decisions. A final amending standard will be issued in line with their due process once all considerations are completed, which is expected in the second half of 2027.
5	Fourth Agenda Consultation **Strategy Project**	N/A	The IASB periodically undertakes an agenda consultation to seek stakeholder feedback on its strategic direction, balance of activities and priorities for its future work plan. The consultation will seek views on the criteria for assessing potential projects and which financial reporting matters should be prioritised. It will also consider connectivity between the work of the IASB and ISSB and the priority of potential joint projects.	**Request for Information** – 2027	The IASB suspended work on its standalone Fourth Agenda Consultation in September 2025 and decided instead to undertake a concurrent agenda consultation with the ISSB, with a Request for Information planned for 2027. The period covered by the Third Agenda Consultation has therefore been extended until the concurrent consultation is concluded, expected in 2028. In the interim, the IASB can use capacity becoming available from completed projects on existing and new projects.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
6	Intangible Assets **Research Project**	IAS 38 *Intangible Assets*	Comprehensive review of intangibles accounting, by evaluating user needs for information about recognised and unrecognised intangible assets and considering whether to update the definition of an intangible asset, associated guidance and recognition criteria, by using test cases around cloud computing arrangements and agile software development.	**Decide Project Direction (Pre-ED)** – 2027	The project remains in the research phase and is broader than improvements to disclosure requirements. The IASB is testing potential changes to aspects of the definition, recognition requirements and supporting guidance in IAS 38 using newer business models and technology-related arrangements as test cases. In September and October 2026, the IASB continued exploring potential changes to IAS 38, using SaaS intellectual-property licensing arrangements and agile software development as test cases. It also considered stakeholder feedback on user information needs and relevant research to inform the future direction of the project. The IASB was not asked to make decisions at the October meeting. Its next step is to decide whether any changes to the direction of the project are necessary.
7	Post-implementation Review of IFRS 16 Leases **Post-Implementation Review** **XRB submitted comment letter:** here	IFRS 16 *Leases*	Post-implementation review of leases accounting to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the new requirements were developed.	**Project Summary and Feedback Statement** – Q1 2027	The IASB concluded in July 2026 that IFRS 16 is overall working as intended and that sufficient work had been completed to conclude the PIR. It nevertheless identified higher-than-expected ongoing costs for lessees and decided to place a project in its pipeline to explore simplifications relating particularly to remeasurements and discount rates. The IASB identified a narrow-scope issue concerning rent concessions involving forgiveness of lease payments and the interaction between IFRS 16 and IFRS 9. These matters are intended to be considered together in a future project to improve IFRS 16.
8	Post-implementation Review of IFRS 9—Hedge Accounting **Post-Implementation Review** **XRB DRAFT comment letter:** here	IFRS 9 *Financial Instruments* IFRS 7 *Financial Instruments: Disclosures*	Post-implementation review of hedge accounting to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the new requirements were developed.	**Request for Information Feedback** – Comments due in January 2027	The IASB published its Request for Information on 28 September 2026, following completion of Phase 1 outreach. The 120-day consultation closes 26 January 2027. Once the comment period ends, the IASB will analyse the feedback received on the proposed requirements and consider what refinements are needed.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
9	Presentation of Taxes or Other Charges that Are Not Tax Expense or Tax Income Applying IAS 12 Income Taxes **Standard-Setting Project**	IFRS 18 *Presentation and Disclosure in Financial Statements* IAS 8 *Basis of Preparation of Financial Statements*	Amendments to IFRS 18 so that a tax charge imposed as a direct substitute for an income tax would be classified in the income taxes category of the statement of profit or loss. This would apply where legislation specifies that a company is required or can elect to pay a specified tax charge instead of an income tax.	**Issue Exposure Draft** – Q4 2026	The IASB completed the key technical work in September 2026 and authorised balloting of the Exposure Draft. The proposals will include related IFRS 19 disclosures and require retrospective application under IAS 8, with no special relief for first-time adopters. The IASB has set a 120-day comment period. Two IASB members indicated an intention to dissent. This is not expected to have significant impact in New Zealand and would only impact on NZ reporting entities that have subsidiaries operating in jurisdictions which have tax charge imposed as a direct substitute for an income tax (like Zakat payments in Saudi Arabia).
10	Provisions—Targeted Improvements **Standard-Setting Project** **XRB submitted comment letter:** here	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* *IFRIC 6 Liabilities arising from Participation in a Specific Market* IFRIC 21 *Levies*	Narrow-scope amendments to the definitions within IAS 37 with the conceptual framework and improve the accounting for provisions around recognition, discount rate measurement and measuring costs to include in the provision. The project aims to respond to stakeholder concerns that IAS 37 generally works well in practice, other than some areas where there are uncertainty and diversity which could be improved.	**Issue Final Amendments (Post-ED)** – H2 2027	The IASB continues to redeliberate the ED. In September 2026 it made further tentative decisions on the past-event condition, threshold-triggered costs, future operating costs and executory contracts. It also decided to retain the IAS 37 exclusion for executory contracts, with clarification linking that exclusion to the proposed transfer condition. A final amending standard will be issued in line with their due process once all considerations are completed, which is expected in the second half of 2027.
11	Risk Mitigation Accounting **Standard-Setting Project**	IFRS 9 *Financial Instruments* IFRS 7 *Financial Instruments: Disclosures*	New requirements to add a risk mitigation accounting model for companies managing repricing risk on a net basis, and to require a company to disclose its strategy for managing repricing risk and the effects of its risk management activities. The project aims to better represent in the financial statements the effects of a company's activities to mitigate repricing risk and provide useful information to users of financial statements about how a company manages repricing risk.	**Exposure Draft Feedback** – Comments due in November 2026	The Exposure Draft is currently open for comment until 30 November 2026. The IASB extended the deadline to align it with the deadline for participating entities to complete fieldwork. The IASB will analyse the feedback received on the proposed requirements and consider what refinements are needed to the proposed requirements.

#	Project	Related Standards	Project Purpose	Next Milestone	Current Status
12	Statement of Cash Flows and Related Matters **Standard-Setting Project**	IAS 7 *Statement of Cash Flows* IFRS 16 *Leases*	Research on the nature and extent of perceived deficiencies in the Statement of Cash Flows and to consider how to improve the transparency of cash flow information. Potential ways of improving the Statement of Cash Flows include the: • Disaggregation of cash flow information; • Reporting of information about non-cash transactions; • Transparency of information communicated about cash flow measures not specified in IFRS Accounting Standards; • Consistent application of requirements to classify cash flows as operating, investing or financing; and • Consistent application of the definition of 'cash equivalents.'	**Issue Exposure Draft** – 2027	The IASB is developing proposed requirements to improve the usefulness, transparency and comparability of cash-flow information. In September and October 2026, the IASB made tentative decisions on the classification of acquisition-related cash flows, disclosure of non-cash changes, and greater disaggregation of lease cash flows, including proposed amendments to IFRS 16 requiring disclosure of total lease cash outflows and their classification. The IASB also tentatively decided to clarify the cash equivalents requirements, including that an investment will normally qualify only if the entity has a right to obtain the cash within three months of acquisition. The IASB will continue considering the remaining topics in the project. An Exposure Draft remains expected in 2027.

Question for the Board:

Q1. Does the Board have any **COMMENTS** on the IASB's current projects, and are there any New Zealand-specific matters which staff should consider or research further on any of these projects?

Upcoming ASAF discussion – December 2026

8. The December 2026 ASAF meeting will be held on Monday 30 November, and Tuesday 1 December 2026, with the following topics expected to be discussed:

   - **Post-implementation Review of IFRS 9—Hedge Accounting** – Provide an update on the publication of the Request for Information (RFI) for the Post-implementation Review of IFRS 9—Hedge Accounting project. Seek initial feedback from ASAF members on the questions raised in the RFI.
   - **Financial Instruments with Characteristics of Equity** – Provide an overview of the IASB's tentative decisions to date on the classification topics in the Exposure Draft Financial Instruments with Characteristics of Equity. Seek ASAF members' views on any remaining stakeholder concerns related to the classification topics that the IASB needs to consider before finalising the amendments.
   - **Intangible Assets** – Discuss further the work stream exploring potential changes to some aspects of the definition of an intangible asset and recognition requirements based on test cases. Seek ASAF members' views on any unintended consequences of these ideas, particularly on a broader set of intangible assets.
   - **Statement of Cash Flows and Related Matters** – Discuss further work to scope possible requirements for financial institutions. Seek ASAF members views on project developments for improving the consistent application of requirements to classify cash flows as operating, investing and financing and possible approaches to structuring the proposals in the exposure draft.
   - **Equity Method** – To provide an overview of the forthcoming revised IAS 28 Investments in Associates and Joint Ventures.
   - **Business Combinations—Disclosures, Goodwill and Impairment** – To provide an overview of the latest thinking on this project.

Question for the Board:

Q2. Does the Board have any **COMMENTS** on the upcoming ASAF discussions?

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	NZASB Members
Meeting date:	24 November 2026
Subject:	**IPSASB projects update**
Date:	11 November 2026
Prepared by:	Gali Slyuzberg
Through:	Michelle Lombaard

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

Purpose[1]

1. The purpose of this paper is to provide the Board with an update on the current and upcoming projects of the International Public Sector Accounting Standards Board (**IPSASB**).
2. As per the XRB's Statement of Intent, we enable trust and confidence in the external reporting system by setting high-quality standards that are internationally credible and locally relevant.
3. The observations in Agenda Item 11.1 about the XRB's proactive international engagement with the International Accounting Standards Board (**IASB**) via the Accounting Standards Advisory Forum (**ASAF**) also apply to the XRB's engagement with the IPSASB. That is:
   (a) The XRB's proactive international engagement allows us to build credibility and influence both the international standard-setting agenda and the standards as they are set.
   (b) Our activities to support the New Zealand member of IPSASB, as well as our interaction with IPSASB staff in this process and other international engagements, allow us opportunities to positively inform the development of international standards, so that the New Zealand context is well considered early in their development. This also enhances our understanding of global norms and nuances to be considered domestically.
4. Board Members are welcome to reach out to staff if they are interested in an IPSASB project, or if they have specific views or observations that they would like us to consider in our preparations to provide inputs for IPSASB meetings, and in developing an understanding of the New Zealand context relating to these projects. In conjunction with other outreach activities that we conduct on the projects (including our Technical Reference Group, PBE Working Group, and the New Zealand and Australian public sector stakeholders with whom we meet ahead of IPSAS meetings), any additional feedback will help shape our understanding and inputs.

Recommendations

5. We recommend that the Board **NOTE** the update on the status of IPSASB projects and **PROVIDE FEEDBACK**, where relevant. We invite the Board and any interested party to reach out should they want to provide input to these projects for our consideration.

[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).

IPSASB projects update

6. The table below provides an overview of IPSASB *financial reporting* standard-setting projects that are currently on the IPSASB's work programme. The IPSASB's Work Programme Consultation and upcoming strategy consultation are also included. Sustainability reporting projects are *excluded*.

7. The table *excludes* research and maintenance activities, such as academic forums and the IPSASB Application Group (IAG) – although we note that we engaged with the IAG (e.g. by submitting questions on the application of IPSAS 47 *Revenue* to address queries from NZ stakeholders).

8. The IPSASB's full work plan (latest version from the September 2026 IPSASB papers, Agenda Item 2) is included in the appendix to this memo.

9. In this table, comments relating to the NZASB's or XRB's feedback on IPSASB projects and future NZASB decisions on whether to amend PBE Standards as a result of IPSASB projects are highlighted in purple.

Table 1 IPSASB financial reporting standard setting projects

	Project	Related standard	Project purpose	Next milestone	Current status
Active projects					
1	Next Strategy	Various	To develop the IPSASB's next strategy	Consultation document (Q4 2026)	At the September 2026 and check-in October 2026 meetings, the IPSASB discussed proposed updates to the IPSASB's strategic objective, to reflect the IPSASB's increased focus on implementation support activities and its plan to take a more active role in championing the benefits and value of financial and sustainability information based on IPSASB Standards. The IPSASB also discussed the content of the consultation paper on the new strategy, which would also include an explanation of the IPSASB's updated operating model to deliver on the updated objective. The IPSASB expect to approve the consultation document in December 2026. The NZASB (and/or XRB) would need to decide whether to comment on this consultation.
2	Presentation of Financial Statements	Proposed new standard to replace IPSAS 1 *Presentation of Financial Statements*	To enhance the communication effectiveness of financial information reported in public sector general purpose financial statements by developing a new IPSAS Standard to replace IPSAS 1	Exposure Draft (H2 2027/ H1 2028)	The IPSASB consultation closed in September 2026. The Consultation Paper (CP) proposed to replace IPSAS 1 with a new standard, aligned with IFRS 18 *Presentation and Disclosure in Financial Statements*, with modifications for the public sector context. The NZASB submitted a comment letter on the CP. The IPSASB plans to start reviewing feedback received on the CP in December 2026. The IPSASB plans to publish an ED in late 2027/early 2028, with a final standard expected in late 2028. After that, the NZASB would need to decide whether to develop a PBE Standard based on the new IPSAS.

	Project	Related standard	Project purpose	Next milestone	Current status
3	Improvements to IPSAS Accounting Standards – Volume 11	Various	General improvements and IFRS alignment improvements to IPSAS Accounting Standards (Note: Includes the development of amendments based on the IASB's *Disclosures about Uncertainties in the Financial Statements*, with additional public sector examples)	Exposure Draft (H1 2026)	The IPSASB is developing an ED to propose amendments to IPSAS based on the following recent IASB amendments: • *Translation to a Hyperinflationary Presentation Currency* – narrow-scope amendments. • *Disclosures about Uncertainties in the Financial Statements* – amendment to non-integral illustrative examples. In developing amendments based on *Disclosures about Uncertainties in the Financial Statements*, in addition to aligning with the IASB's pronouncement, the IPSASB is also developing public sector-specific examples. This is consistent with feedback received from stakeholders (including the XRB) on the IPSASB Work Programme Consultation (see below). An ED is expected in March 2027.
4	Making Materiality Judgements	Practice Statement on the application of materiality across IPSAS Accounting Standards	To develop non-authoritative guidance to clarify how to make materiality judgments when preparing general purpose financial statements (GPFS) in accordance with IPSAS Standards	Review of feedback on Exposure Draft (December 2026)	The IPSASB consultation closed in August 2026. The ED proposed a non-authoritative Practice Statement based on IFRS Practice Statement 2 *Making Materiality Judgements*, with modifications for the public sector context. The NZASB submitted a comment letter on the ED. At the September 2026 meeting, the IPSASB received a high-level update of the consultation feedback. Respondents generally supported the objective of the project, but requested further adaptation to reflect the public sector context, enhancing the practical application focus of public sector-specific sections, and additional public sector-specific examples. The direction of the feedback is generally aligned with the NZASB's comment letter. The IPSASB will discuss the detailed feedback analysis in December 2026. The final IPSASB pronouncement was originally expected in December 2026, but this date may be revised as the IPSASB discusses ED feedback. The NZASB would then consider whether and how to incorporate this guidance into PBE Standards literature.
Completed projects – final pronouncements to be issued					
5	IPSASB Work Programme Consultation (WPC)	Various	To perform a limited-scope public consultation during the second half of 2025 on projects to add to the IPSASB's future Work Programme when resources become available	Issue WPC Consultation Summary Document (Q4 2026)	This consultation closed in May 2026. The XRB submitted a comment letter. At the September 2026 meeting, the IPSASB agreed to add to the Work Programme a post-implementation review of IPSAS 35 *Consolidated Financial Statements* and the following financial reporting projects: (a) Disclosures about Uncertainties in the Financial Statements[1]; (b) Provisions – Targeted Improvements; (c) Intangible Assets.[2] IPSASB also agreed to place greater focus on maintenance of existing

	Project	Related standard	Project purpose	Next milestone	Current status
					standards and developing additional implementation support materials. These decisions are largely in line with the XRB recommendations. The IPSASB's next step is to publish the Consultation Summary document. [1] This project is part of *Improvements to IPSAS Accounting Standards – Volume 11* (see above) [2] In terms of sustainability reporting projects, the IPSASB agreed to add a project on general sustainability-related disclosures to its work programme.
6	Measurement – Application Phase – COV in IPSAS 31	IPSAS 31 *Intangible Assets*	To evaluate the applicability of current operational value (COV) in IPSAS 31 [Note: IPSAS 46 *Measurement*, issued by the IPSASB in 2023, introduced COV as a public sector current value measurement basis]	Issuance of final standard (Q4 2026)	In Phase 2 of the IPSASB Measurement project, ED 90 *Amendments to IPSAS As a Result of the Application of IPSAS 46 Measurement* proposed to introduce COV measurement requirements for revalued intangible assets. The ED was accompanied by an Alternative View (AV), which expressed concerns about the proposal to allow intangible assets held for operational capacity to be revalued at COV without an 'active market' restriction (while retaining this restriction for revaluing intangible assets held for financial capacity at fair value) – noting that further analysis is needed to determine whether this would result in appropriate reporting outcomes, and there is benefit in waiting for the IASB to progress its project on intangible assets. The IPSASB received mixed feedback on its proposal to introduce COV for intangible assets, with a number of respondents, including the NZASB, supporting the AV. At the September 2026 meeting, IPSASB approved the final pronouncement, which reflects the ED proposals. Issuance of final pronouncements is expected in Q4 2026. After that, the NZASB would need to decide whether this pronouncement should be considered for incorporation into PBE Standards as part of the PBE Measurement project, which is estimated to commence in 2027.
7	Improvements (Improvements to IPSAS Accounting Standards – Volume 10 and other narrow-scope amendments)	Various	General improvements and IFRS alignment improvements to IPSAS Accounting Standards	Issuance of final standard (Q4 2026)	The IPSASB consultations ED 95 *Improvements to IPSAS Accounting Standards – Volume 10*; and ED 96 *Definition of an Operation and Recognition of Acquired Liabilities and Contingent Liabilities* (Amendments to IPSAS 40) closed in June 2026. The NZASB decided not to comment on the EDs. At the September 2026 meeting, IPSASB approved the final pronouncement. Issuance of final pronouncements is expected in Q4 2026. After that, the NZASB would need to decide whether and when to incorporate these into PBE Standards in NZ.

	Project	Related standard	Project purpose	Next milestone	Current status
8	Strengthening Linkages between IPSAS Standards and GFSM	IPSAS 22 *Disclosure of Financial Information about the General Government Sector*	To strengthen the linkages between IPSAS Standards and GFSM[1] to help public sector entities maximize the extent to which they can draw on IPSAS Standards-based information in preparing statistical information that is used by decision-makers and for accountability purposes [1] GFSM refers to the Government Finance Statistics Manual issued by the International Monetary Fund	Issuance of final standard (Q4 2026)	The IPSASB consultation closed in May 2026. The ED proposed to add non-authoritative guidance into IPSAS 22, to facilitate the preparation of disclosures required in that standard, where a reporting entity elects to do this – and support the use of IPSAS Standards-based accounting data for GFSM 2014 reporting purposes. These proposals are of limited relevance in New Zealand, as PBE IPSAS 22 is currently not applied (this standard only applies when a government *elects* to present information on the general government sector in its consolidated financial statements). The NZASB decided not to comment. At the September 2026 meeting, IPSASB approved the final pronouncement. Issuance of final pronouncements is expected in Q4 2026. After that, the NZASB would need to decide whether and when to incorporate it into PBE Standards in NZ.

Question for the Board:

Q1. Does the Board have any **COMMENTS** on the IPSASB's current projects, and are there any New Zealand-specific matters which staff should consider or research further on any of these projects?

Appendix: Latest IPSASB Work Programme [Source: IPSASB September 2026 meeting papers – Agenda item 2]

Project	Meetings					
	Sep 2026	Dec 2026	Mar 2027	Jun 2027	Sep 2027	Dec 2027
Standard Setting Projects						
Climate-related Disclosures: Public Policy Outcomes	DI/IP	IP				
Presentation of Financial Statements		RR/DI	RR/DI	RR/DI	ED	
Strengthening Linkages Between IPSAS Standards and the GFSM	RR/DI	IP				
Measurement – Application Phase: COV in IPSAS 31	IP					
Improvements	RR/IP		DI/ED		RR/IP	
Making Materiality Judgments		RR/IP				
Work Program Consultation–2025	WP					
Next Strategy	DI	DI/ED		RR	RR/DI	IP
Maintenance & Implementation Support						
International Application Group	Quarterly Board Review of IAG Recommendations					
Financial Reporting Implementation Forum	Quarterly Board Updates					
Sustainability Implementation Forum	Quarterly Board Updates					
Academic Advisory Group – Public Sector Research	PF				PF	
Other Initiatives						
IPSASB Handbook	Publish			Publish		

Legend:

DI = Discussion of Issues; RR = Review of Responses, PF = Presentation of Research Findings

PB = Approval of Project Brief

CP = Approval of Consultation Paper

ED = Approval of Exposure Draft

RFI = Approval of Request for Information

IP = Approval of Final Standard or Amendments to IPSAS

SWP = Approval of Strategy and Work Program

= Planned Consultation Period

IG = Information Gathering