



## Practitioner Advisory Group

### AGENDA ITEM: PAGCP01- 8

5-6 December, 2019 – Nairobi, Kenya

## Consultation Paper: Development Approach

<b>Summary</b>	The paper sets out how the Consultation Paper might look and how the content will be developed.
<b>Purpose/Objective of the paper</b>	Given the limited amount time to develop the Consultation Paper, issues presented to the TAG need to be capable of being easily incorporated into the Consultation Paper. The Consultation Paper will need to be developed in parallel with the consideration of sector-specific issues.
<b>Other supporting items</b>	PAGCP01 – 4 Project Objectives
<b>Prepared by</b>	Karen Sanderson

<b>Actions for this meeting</b>	<b>Comment</b> on proposals: <ul style="list-style-type: none"><li>• for the presentation of issues within the Consultation Paper.</li><li>• that the Consultation Paper only specifically addresses the items within the approved work plan with the scope for respondents to nominate other issues.</li></ul>
---------------------------------	---



# Practitioner Advisory Group

## Consultation Paper: Development Approach

### **1. Background**

- 1.1 The overall objective of the project is to develop non-mandatory, internationally applicable financial reporting guidance for NPOs. As set out in PAGCP01-04 'Project Scope and Objectives' and PAGCP01-05 'Nature of the Guidance', the proposal is to focus first on developing Guidance for small and medium-sized NPOs.
- 1.2 The Guidance is planned to be developed in three phases, with the first phase focusing on the development of the Consultation Paper (CP), the second phase being the development of the Exposure Draft and the third phase being the development of the final Guidance.
- 1.3 The process of developing the Guidance needs to be collaborative and inclusive to properly reflect the concerns, issues and needs of the NPO community. This will maximise the opportunity for the Guidance to be relevant to the sector and usable by all stakeholders. The proposed approach to this will be discussed under Item 5.

### **2. Overall Approach to Consultation Paper Development**

- 2.1 The CP is to be developed over the next 10 months to July 2020, with the CP planned to be launched at the beginning of September 2020 at the Humentum 2020 conference. The current plan is for the PAG to be provided with a draft of the CP in June 2020 for feedback prior to the TAG review in July 2020 ahead of its publication.
- 2.2 The aims of the CP phase are to raise awareness of the project, to introduce stakeholders to the objectives and planned development approach for the Guidance as well as proposed issues for discussion.
- 2.3 The CP will introduce the topics proposed for inclusion in the initial version of the Guidance with the aim of encouraging debate about possible options, rather than seeking feedback on preferred options at this stage. The comments received on the Consultation Paper will guide the plans for the development of the Exposure Draft and ultimately the final Guidance.
- 2.4 Initial discussions about the potential shape of the CP have been held with the TAG. The TAG is of the view that the CP should be split into two parts, with the first part addressing the overall Guidance approach, such as defining its scope, whether IFRS for SMEs is an appropriate basis, guiding concepts or principles for developing the guidance, users of the guidance and approach to



# International Financial Reporting for Non Profit Organizations

specific issues. Part 2 will then address in more detail each of the prioritised sector-specific issues.

- 2.5 Annex A includes initial thoughts about the shape and content of the document based on the TAG's discussions. This will be fleshed out as topics are considered and the overall framework is developed.
- 2.6 PAGCP01-09 'Long List of sector specific Issues' will discuss the range of sector-specific issues proposed for inclusion in the CP. It will invite the PAG to share its views on this list, as well the issues shortlisted to be addressed in the initial Guidance. The resulting final list will be used to form a Work Plan to deliver the CP. Between now and July 2020 the TAG will be considering the issues that are part of this Work Plan. Input from the PAG will be sought over this period.

**Question 1: What are the PAG's views on the proposed outline for the CP in Annex A?**

### **3. Developing content for sector-specific issues**

- 3.1 The TAG has already considered what to include and how to structure the content for inclusion in the CP as outlined above. In its deliberations to date, the TAG is of the view that the sector-specific issues papers that it considers, which will, after TAG comments have been reflected, be included in the draft CP, should discuss the following:
  - Description of the issue, including why the issue is important.
  - Accounting challenges raised, to describe whether the issue relates to recognition, measurement, disclosure, classification etc.
  - National-level guidance, describing what national-level guidance provides and the extent to which this guidance is consistent across jurisdictions.
  - Current international guidance, to set out the extent to which international guidance addresses the issue fully, in part or not at all.
  - Possible alternative accounting treatments.
- 3.2 In addition the TAG supported the inclusion of an Annex to each issue that includes detailed references to where respondents can find further information on jurisdiction specific and international guidance. This will include information from as many jurisdictions who have provided input about their existing guidance and will not be exhaustive.



## International Financial Reporting for Non Profit Organizations

- 3.3 Each issue paper is not proposed to include regulatory type issues such as impact on tax, and impacts on audit thresholds. The expectation is that these will be jurisdiction-specific and an area on which feedback will be sought through the CP.
- 3.4 One issue, Services in-Kind has been developed using this format and reviewed by the TAG. This paper is included as agenda item 10 to bring to life these concepts. This format, subject to comments received by the PAG and the TAG in its ongoing discussions, will be used in subsequent papers.

**Question 2: What comments does the TAG have on the proposed format of issues papers as illustrated in PAGCP01-10?**

#### 4. Whether to include examples

- 4.1 The TAG has considered whether worked examples should be included in the CP, and if so, whether they should be developed for all issues, or just selectively.
- 4.2 The TAG considered the advantages and disadvantages to the inclusion of examples as set out below.

*Advantages:*

- By presenting the outcome of the Guidance based on identical scenarios, users are able to make straightforward comparisons between options
- Where no example transactions are included within current literature, respondents would have a scenario to use in order to 'bring the accounting to life'

*Disadvantages:*

- Finding suitable examples which can be 'read across' a range jurisdictions and types of entity can be difficult.
  - If Guidance differs depending on the type/size of the organisation (i.e. several regimes exist), several worked examples would have to be prepared.
  - The time and resource required to provide a comprehensive solution to the example
- 4.3 The TAG's view was that this is a matter for the Exposure Draft as the CP will be exploring a range of options rather than the implications of one specific option. Also, from a pragmatic perspective, the inclusion of examples would significantly increase the size of what could already be a large document, and could significantly extend the timeline for its development.



**Question 3: What are the PAG's views on the proposal not to include worked examples in the Consultation Paper?**

## 5. Limiting the sector-specific topics included in the Guidance

- 5.1 There could be a large list of issues to include in the CP. As there is limited time to develop the CP, it is essential that the focus is on issues that have the potential to add most value through the availability of guidance. The CP is also focused on engagement, so the issues included need to feel relevant to potential users of the Guidance. With this in mind only sector specific issues are expected to be included within the CP.
- 5.2 All issues for potential inclusion will be evaluated against defined criteria, which are to be discussed in Paper 9, to develop a short list. As a consequence, it is likely that not all of the potential issues being experienced by stakeholders will be explored in depth in the CP. The CP will, however, provide an opportunity for the NPO community to raise other issues that it considers important and urgent, in order to ensure that stakeholders have confidence that they have a voice and can input to the process. This does though come with the risk that expectations are raised that all issues will be addressed. The CP will make clear the criteria for inclusion within the Guidance.
- 5.3 When considering the responses to the CP, the TAG and the PAG will need to consider any additional issues raised, how these meet the criteria for inclusion in the project and whether these should be considered in the development of the Exposure Draft.

**Question 4: What is the PAG' view on the proposal that the Consultation Paper should only specifically address shortlisted items, while allowing respondents the opportunity to raise other issues for consideration?**



## International Financial Reporting for Non Profit Organizations

### 6. Obtaining stakeholder feedback

- 6.1 The TAG has advised that views about preferred alternative treatments ('Preliminary Views') should not be in the CP. However, it has advised that the alternatives (if any) that it does not advise should be pursued based on technical merit should be highlighted. Each alternative will be accompanied by advantages and disadvantage but no weight will be put to these.
- 6.2 The CP will invite respondents to share views on specific questions (specific matters for comment (SMCs)) as well as providing the opportunity to provide more general feedback. SMCs will be focused on areas where particular feedback is required. The TAG has discussed having a standard set of questions for each specific issue. This will be tested as further issues papers are developed.

**Question 5: What are the PAG's views on the proposed presentation of alternatives and the approach to seeking stakeholder feedback?**

November 2019



# International Financial Reporting for Non Profit Organizations

## **Annex A**

### **International Financial Reporting for Non-Profit Organisations**

#### **Consultation Paper**

#### **CONTENTS**

#### **EXECUTIVE SUMMARY**

#### **IFR4NPOs - PROJECT BACKGROUND**

**Project Development and Phases**

**Consultation Paper Objectives**

**Consultation Paper Scope and Structure**

**Guide for Respondents**

#### **PART 1: NPO Financial Reporting – Overall Guidance Approach**

**Section 1: Definition of NPOs**

**Section 2: Role of public accountability**

**Section 3: Users of NPO General Purpose Financial Reports**

**Section 4: Guidance development Options**

**Section 5: Narrative Reporting for NPOs**

#### **PART 2: NPO Financial Reporting – Sector-specific Issues**

**Issue 1: xxxxx**

**Issue 2: yyyy**

**Issue 3: zzzzz**



# International Financial Reporting for Non Profit Organizations

## **EXECUTIVE SUMMARY**

This Consultation Paper (CP) explores concepts applicable to presentation of information in the General Purpose Financial Reports of Not for Profit Organisations (NPOs), including General Purpose Financial Statements (GPFs).

It begins in Section 1, which describes what is meant by NPOs and as a consequence which entities are expected to apply the guidance.

Section 2 describes the role of public accountability for financial reporting for NPOs.

Section 3 describes the users of NPO general purpose financial reports and the main issues that they face.

Section 4 focuses on the Guidance development options including the underpinning conceptual issues that set the not for profit sector apart.

Section 5 looks at the role of narrative reporting for NPOs





# International Financial Reporting for Non Profit Organizations

## **IFR4NPOs – PROJECT BACKGROUND**

### **Project Development and Phases**

Why the project is important.....

Brief history of the project.....

A description of how the Consultation has been developed including the role of the TAG and PAG.....

### **Consultation Paper Objectives**

The overriding objective of this Consultation Paper is to create a basis to engage with the stakeholders that make up the NPO community, being those individuals or organisations that have an interest in NPO financial reporting.

The objective is to seek feedback on the framework of high level issues that will underpin the development of the Guidance as well as to seek feedback on the scope of sector specific issues and potential ways to address such issues.

This CP, *Issues for General Purpose Financial Reporting by Not for Profit Entities: General principles and concepts for financial reporting guidance for the Not for Profit Sector* sets out the specific matters on which comments are requested.

The Technical Advisory Group has not provided preliminary views on the issues so as to have the widest possible consultation. Respondents may choose to address all or just some selected matters from the Consultation Paper.

Comments are welcome on any other matter the Technical Advisory Group should consider in forming its views.

### **Consultation Paper Scope and Structure**

This Consultation Paper (CP) has been developed in two parts. Part 1 deals with the broader issues underpinning General Purpose Financial Reporting in the not for profit sector and Part 2 provides more in depth analysis and consideration of a number of sector specific issues that have been identified during the development of the CP.

The Technical Advisory Group's advice was to issue the Consultation Paper in two parts to make the content more accessible in recognition that not all parts of the community that have interests in the not for profit sector may have the same interests.

Part 1 includes the scope of the entities that are expected to apply the Guidance, the role of public accountability, the basis for the Guidance, and the key concepts that underpin financial reporting in the not for profit sector.

Where to access Part 2.....

Whilst the Consultation Paper has been developed in two parts, subject to comments as part of the consultation process, the intent is to issue a single Exposure Draft that will cover both the sector general material and sector specific accounting issues.



# International Financial Reporting for Non Profit Organizations

## Guide for Respondents

Comments are welcome on all of the matters discussed in this CP. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, and contain a clear rationale, including reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

The proposals in this Consultation Paper may be modified in light of comments received before being issued in final form. **Comments are requested by February 15, 2021.** Respondents are asked to submit their comments **electronically** through the #IFR4NPO website ([www.IFR4NPO.org](http://www.IFR4NPO.org)), using the —Submit a Comment link on the Consultation Paper page. All comments will be considered a matter of public record and will ultimately be posted on the #IFR4NPO website.

Although #IFR4NPO prefers that comments be submitted electronically, e-mail may be sent to [karen.sanderson@cipfa.org](mailto:karen.sanderson@cipfa.org). Comments can also be mailed to:

Head of Programme, #IFR4NPO  
Chartered Institute of Public Finance and Accountancy  
77, Mansell Street,  
London  
E1 8AN

The Specific Matters for Comment requested in the CP are.....

SMC1

SMC2

SMC3.....



# International Financial Reporting for Non Profit Organizations

## **PART 1: NPO Reporting – Overall Guidance Approach**

### **Section 1: Definition of NPOs**

[The approach to developing the narrative description for NPOs and small and medium sized NPOs]

### **Section 2: Role of public accountability**

[What do we mean by public accountability and the interplay with IFRS for SMEs]

### **Section 3: Users of NPO General Purpose Financial Reports**

[Description of the primary users of NPO General Purpose Financial Reports and their needs]

### **Section 4: Guidance development Options**

[The proposed basis of the Guidance and the pros and cons with adopting this approach]

### **Section 5: Narrative Reporting for NPOs**

[The role and significance of narrative reporting for NPOs]



# International Financial Reporting for Non Profit Organizations

## **PART 2: NPO Reporting – Sector-specific Issues**

[Approach to developing the list of issues including reference to the CCAB report and the IFASS working group.....]

Information has been gathered from a number of jurisdictions, predominantly those that have specific guidance for the not for profit sector. This data is not exhaustive and is being used in this Consultation Paper to illustrate the treatments adopted on this issue globally. The information with the links to national guidance is contained in an annex to each issue.

**Issue 1: xxxxx**

**Issue 2: yyyyy**

**Issue 3: zzzzz**