



Technical Advisory Group

AGENDA ITEM: TAGCP02- 01

November 4, 2019 – Virtual Meeting

Potential Consultation Paper Issues

Summary	This paper outlines the not for profit specific issues for consideration.
Purpose/Objective of the paper	To provide an updated list of issues with revised definitions based on feedback from TAG members. The paper proposes a short list to form the TAG Work Plan.
Other supporting items	TAGCP01 –07 Potential Consultation Paper Issues
Prepared by	Karen Sanderson

Actions for this meeting	Advise on: <ul style="list-style-type: none">• The revised list of issues• The short listed issues• The future Work Plan
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Technical Advisory Group

Potential Consultation Paper Issues

1. Background

- 1.1 At its first meeting on 3 and 4 October, the TAG considered a long list of issues for potential inclusion in the Consultation Paper. Members suggested additions to the long list and provided comments on the description of the issues and the relationships between them.
- 1.2 Members also provided comments on the criteria for the prioritisation of issues to identify which issues should be prioritised for inclusion in the short list. The updated criteria have been included in section 3 below.
- 1.3 TAG members were asked for further feedback through correspondence subsequent to the meeting. The further input received from TAG members has been incorporated into a revised long list and a proposed short list to form the basis of the forward Work Plan.

2. Criteria for topic selection

- 2.1 With potentially a large number of issues to consider, there needs to be a clear basis for inclusion of issues within the Consultation Paper and ultimately the Guidance.
- 2.2 Following discussion at the TAG meeting on 3 and 4 October, the TAG agreed that the proposed criteria of "urgency" be replaced with "demand". The criteria have been updated accordingly. These criteria will be used to determine which specific issues should be prioritised for analysis, with that analysis included in the Consultation Paper.

1. **Prevalence** - Whether the financial reporting issue is widespread globally.
2. **Consequences** - Whether the issue impairs the ability of the financial statements to provide useful information for accountability and decision making.
3. **Demand** - Whether the issue has been raised by multiple stakeholder groups, or where a single stakeholder group has widespread support for the need to address a specific issue.
4. **Feasibility** - Whether a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints without impacting adversely on the completion of other projects.

Question 1: What are the TAG's views on the description of the criteria for "demand"?



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3. Long List of Potential CP Issues

- 3.1 Annex A contains the full list of issues, separated between those that are proposed to be part of the short list for specific inclusion in the Consultation Paper, those that are proposed to be addressed in future phases of the IFR4NPO project. This reflects a range of feedback from TAG members on the definition of the issue, the potential grouping of issues and prioritisation. Some judgement has been taken where differences in the feedback from members appeared to be less significant.
- 3.2 As before the issues have been divided into groupings of like items, including income recognition (what should be recognised when and by whom), expenditure recognition (grants and constructive obligations), the form and content of accounts (narrative reporting, presentation of financial statements, restricted funds and disclosure) combinations and non-financial assets.
- 3.3 However, there are a small number of issues where the views around prioritisation are mixed, with the priority assigned to these items having a higher or lower priority than other topics within the same grouping. As a consequence Annex A has a group called "issues for further discussion", which have been identified specifically for further discussion. The issues are:
- Related parties – some felt that current guidance was sufficient and so not a priority
 - Remuneration disclosures – mixed views
 - Treatment of branches – was identified by many as a more important issue
 - Reserves policy – mixed views

Question 2: Does the TAG agree the list of potential issues set out in Annex A, including the description of each issue.

Question 3: Does the TAG agree the prioritisation for potential inclusion in the Consultation Paper in Sections 1 and 2 of Annex A? What are the TAGs views on the issues identified for further discussion?

4. CP Outline

- 4.1 These specific issues are, following the discussion at the TAG meeting on 3 and 4 October, planned to be captured in a separate section of the CP, with the CP comprising two parts.
- 4.2 Part 1 of the CP will focus on the overarching issues relating to financial reporting for NPOs and Part 2 on specific issues. To support the development of the CP, Annex B includes an outline for the document that starts to set out the expected content

Question 4: What are the TAG's views on the outline for the CP?



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5. **Next Steps**

- 5.1 The short list of issues in Annex A has been used to develop a proposed TAG Work Plan. Annex C sets out the proposed Work Plan.
- 5.2 The long list of issues and associated definitions will be also be discussed by the PAG at its first meeting on 5 and 6 December. The PAG will be asked for its views to feedback to the TAG.
- 5.3 The Work Plan will be updated if necessary following input from the PAG. Any proposed changes arising from this input will be circulated in correspondence for the TAG for comment. This will include a summary of the PAG's discussion and outline the key points raised.

Question 5: What are the TAG's views on the currently proposed Work Plan?

- 5.4 The drafting of the text for inclusion in Part 1 of the CP to cover the approach to inclusion of specific issues within the CP will be provided for the April 2020 meeting. This will reflect future discussions about the construct of the CP. Drafting the text later will allow for PAG input and take account of further experience of agreeing the text on specific issues.

October 2019



Annex A

Short Listed Issues for inclusion in Consultation Paper.

	Topic	Issue
	Accounting for incoming resources from external sources	
1	Recognition and measurement of incoming resources from external sources	<p>How are donations defined? Is there an overarching set of principles for the recognition of incoming resources, of which donations, grants, service income are all components? How should these be disclosed?</p> <p>Is there any difference between government grants and grants from other sources? Section 24 of the IFRS for SMEs only directly relates to government grants and is inconsistent with IAS 20.</p>
2	Recognition of donations, grants and other contributions with time and purpose requirements and other criteria/performance obligations	<p>Timing of income recognition and definition of performance criteria/obligation. What is the recognition and measurement process when receiving donations that are used to fulfil requirements (including a specific time and purpose requirement) in subsequent periods?</p> <p>When should donations to purchase a capital asset be recognised? What if the donation is repayable if the asset, at some future date, is no longer used for its intended purpose?</p>
3	Recognition and measurement of Services in-Kind (including volunteers)	When should volunteer time be recognised and if so on what basis and how is it measured? What disclosures should be provided?
4	Recognition and measurement of Gifts in-Kind assets (including free use of space and equipment)	<p>When should these be recognised and using which measurement basis, including the measurement of low value items, inventory (second-hand for sale and new for distribution as part of charitable activities) and capital assets?</p> <p>Accounting for 'right of use' donations, including when amounts should be recognised and how they are measured?</p>
5	Recognition of legacy/bequest income and endowments	<p>When should bequests be recognised and considerations of perpetual trusts and a portfolio of similar smaller assets?</p> <p>How are endowments recognised and classified, including the treatment of the initial contribution, subsequent changes in the value of the initial contribution and treatment of income earned?</p> <p>Should income from endowments be presented separate to other income? Presentation on the balance sheet? Disclosure of any significant restrictions on the entity?</p>



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Form and content of accounts, including narrative/performance reporting		
6	Financial statement presentation including the treatment and presentation of unrestricted and restricted funds	How should financial statements be presented to help the user understanding of a charities activities? How should unrestricted and restricted funds that can be used for specific charitable purposes be presented for all elements of financial statements including cashflow? Should there be disclosure of material transactions and/or categories of income and expenditure?
7	Narrative reporting, including service reporting	What guidance for narrative/non-financial reporting should apply to NFPs?
8	Ratios – definition of funding/expense ratios	How should costs be classified been charitable and support costs. How should consistency of reporting to provide transparency about the level of overhead to operational expense be achieved?
Accounting for expenditure		
9	Costs of fundraising	How should the costs of fundraising be recognised (i.e. on a gross basis or netted from income)?
10	Grants expenses	What is the accounting treatment of charitable distributions? When is a liability for a commitment recognised (whether a grant or promise), particularly a multi-year commitment?
11	Agency relationships (including cost pass through and assets held on behalf of another entity/person)	When is the charity acting as an agent and when is it acting as principal? Is any disclosure required of the gross amounts relating to agency activity or assets in custody?

Issues for further discussion

Related party and remuneration type disclosures		
12	Related party transactions	Definition, recognition, measurement, disclosure and presentation of related party transactions. Implications of local legal requirements? When is income from a subsidiary recognised in the parent charity's accounts taking account of legal considerations relating to the way in which the profits of a subsidiary are given to a parent? What disclosure should be required by both sides of the relationship/transactions when a branch is part of a larger charity or a charity is part of a group?
13	Remuneration/pay disclosures	What disclosures should be made and who should it cover?



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Other		
14	Treatment of branches	How is a branch defined? Should all branches be accounted for as part of a charity? What is the status of the financial statements of a branch that is not a separate legal entity?
15	Reserves policy	What is the guidance and framework for reporting of reserves policies in a not-for-profit entity?

Issues to be considered in a later Phase

Accounting for combinations of NFP entities		
16	Definition of control	How is control defined as charities may not be exposed to investee returns in a conventional sense? When are group accounts required? What are the requirements for consolidation? Are there consolidation issues if entities within the consolidation are not NPOs? How should subsidiaries be disclosed?
17	Mergers and acquisitions (combinations)	What is the accounting treatment of the combination of two or more NPOs, including the use of merger vs acquisition? When is merger accounting permitted/required? If the acquisition method is required what is the accounting for a gain/negative goodwill?
Accounting for non-financial assets		
18	Donated assets, including the fair valuation of assets restricted for use	How should donated non-financial assets be recognised and measured? What is the initial measurement of assets that can only be used for a specific charitable purpose and may have to be returned? How should such assets be subsequently measured? How should assets financed by capital grants be recognised and measured (i.e. gross or net), and the implications for the recognition of the grant in income?
19	Measurement of assets held for social purposes	How should assets that are not held for profit or economic purposes be measured?
20	Impairment of long lived/fixed assets	How are the indications of impairment determined, taking account of assets that do not generate any income, assets that generate income at below market rate and assets that generate a market rate of income? How do you test for impairment in the absence of specific cash flows (testing impairment considering service potential)? How are assets impacted by impairment measured?



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		When an impairment review has been undertaken or an impairment recognised, what disclosures should be made?
21	Heritage assets and/or obligations	<p>What is the basis for recognition and measurement of heritage assets? What disclosures should be made relating to the nature and scale of heritage assets and acquisition, preservation etc. of the collection?</p> <p>What is the treatment of significant heritage obligations, including the measurement basis of these obligations and any impact on the measurement of related assets?</p>
22	Concessionary loans for social purposes	<p>What is the definition of concessionary loans?</p> <p>What is the initial and subsequent measurement of special credit conditions?</p> <p>What is the treatment within a group if there is an inter-company loan with a for-profit entity?</p> <p>What disclosures should be made?</p>
23	Concessionary leases	Is the treatment based on IFRS 16 or IFRS for SMEs?
24	Accounting for investment/financial assets	What are the classification, recognition requirements and measurement basis?
25	Intangibles	What are the conditions to recognise donated intangible assets?
26	Service concessions arising in NPOs as grantor	When do these arise in the not-for-profit sector e.g. low income housing (grantor could be a higher education institution). IFRS for SMEs does not address grantor accounting.
27	Service concessions arising in NPOs as operator	<p>When do these arise in the not-for-profit sector e.g. low income housing?</p> <p>Is the material in IFRS for SMEs sufficient for consistent application? What disclosures are required? Are the transitional implications?</p>



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Annex B

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Consultation Paper

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EXECUTIVE SUMMARY

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Section 3: Users of NPO General Purpose Financial Reports

Section 4: Guidance development Options

Section 5: Narrative Reporting for NPOs

PART 2: NPO Reporting – Sector-specific Issues

Issue 1: xxxxx

Issue 2: yyyy

Issue 3: zzzzz



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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



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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 decided 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.



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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), 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. 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.....



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PART 1: NPO Reporting – High Level Issues

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]



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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