

# Supplementary Information: Project background and history

## Section 1: What are Non Profit Organisations?

A number of academic studies and statistical guides have sought to develop international classification frameworks for NPOs by focussing primarily on the structural and operational features of entities. These include the System of National Accounts developed by the United Nations and *The International Classification of Nonprofit Organisations* from the Johns Hopkins Institute for Policy Studies.<sup>1</sup> The common approach of these frameworks is that an entity is deemed to be an NPO if it is:

- **An organisation** – institutionalised to some extent even if not a legal entity;
- **Self-governing** – in control of its own activities;
- **Private** – institutionally separate from government;
- **Voluntary/non-compulsory** – participation in the entity’s activities and contributions to it are a free choice; and
- **Non-profit distributing/significantly limited in distribution of surpluses** – any profits or surpluses generated are not returned to owners for private gain and the entity is not primarily guided by commercial considerations.

In addition to examining these structural and operational features, a more granular classification of NPOs can also be made based on:

- **the activities that the NPO undertakes** – is it focussed on providing services related to for example healthcare, education, sanitation, housing or advocacy;
- **the sources of its funding** – does the entity receive funding only from a small number of local or national donors, or does it manage grants on an international level and in turn awards sub grants to other entities; and
- **the locations in which it operates** – does the entity provide services in only a single local area or region, has it a national focus, or is it operating across borders/internationally.

While examining these different features permits an international classification framework to be developed, at the jurisdictional level where regulations are applied there is often a focus on legal concepts that are not as readily applicable internationally. This includes concepts such as “charitable purposes” that have a specific meaning within certain jurisdictions. In addition to not being internationally applicable, these legal concepts can also exclude entities within jurisdictions. For example, in some jurisdictions an entity may not be seen as an NPO if it is providing services that are narrowly focussed on a specific group.

As well as regulation and taxation, financial reporting is an area that highlights how jurisdictions take their own approach to defining which entities are seen as NPOs. At a jurisdictional level there is

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<sup>1</sup> See Salamon, L. M., & Anheier, H. K. (1996). *The International Classification of Nonprofit Organizations: ICNPO-Revision 1*, 1996. Baltimore, Md, Johns Hopkins Institute for Policy Studies, and also [https://unstats.un.org/unsd/nationalaccount/docs/UN\\_TSE\\_HB\\_FNL\\_web.pdf](https://unstats.un.org/unsd/nationalaccount/docs/UN_TSE_HB_FNL_web.pdf)

often a focus on whether an organisation meets the definition of a “public benefit entity”, and the extent that the entity is permitted to generate profit/surpluses as part of meeting its primary objectives and then distribute these to owners or members. While this reflects aspects of the international classification framework, it is also clear that each jurisdiction defines what an NPO is based on their own requirements and the wider legal and regulatory framework in place.

### Technical box 1: Examples of jurisdictional level definitions of NPOs for financial reporting

#### Jurisdiction level definitions of NPOs for financial reporting guidance



Canadian GAAP incorporates a test of public benefit purpose but also focuses specifically on the not-for-profit characteristics of an entity and in particular financial returns, defining a not-for-profit organisation (NFPO) as being: *“an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. An NFPO’s members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.”* Preface to the CPA Canada Handbook - Accounting, paragraph 3(c) – April 2019



In New Zealand’s accounting standards framework for for-profit and public benefit entities (both not-for-profit and public sector entities), defines public benefit entities *“as reporting entities whose primary objective is to provide goods or services for the general public or social benefit and where any equity has been provided with a view to supporting that primary objective rather than with a view to providing a financial return to equity holders.”* External Reporting Board Standard A1 – Application of the Accounting Standards Framework – Appendix A - External Reporting Board New Zealand – May 2019



The Financial Reporting Council in the United Kingdom when developing FRS 102 (which also applies to those entities that are not profit oriented) noted that a public benefit entity is: *“An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.”* FRS 102 The Financial Reporting Standard Applicable in the UK and the Republic of Ireland - Financial Reporting Council – March 2018

Jurisdictions also often require NPOs to apply different financial reporting standards based on their size and complexity. This is usually determined using financial statement measures such as how much income an entity receives per year or its level of expenditure.

From an international perspective what is deemed to be a relatively small NPO in one jurisdiction under such measures may be seen as large in another. Adopting such an approach to the Guidance would therefore limit its international applicability and not enable it to be focussed on those entities that have the most pressing needs. It will be for individual jurisdictions to determine whether to apply the Guidance. When doing so they have the opportunity to use such measures based on local circumstances to define to whom the Guidance applies.