

# Technical Advisory Group

AGENDA ITEM: TAGCP10-01

7 July 2020 – Online

## Feedback from the PAG

Summary	This paper provides a summary of the feedback from the PAG meeting held on 17 June 2020.
Purpose/Objective of the paper	To share the feedback on provided by the PAG on three papers that covered the structure of the Consultation Paper, the Preface to the document, the sections of Part considered by the TAG at its last meeting (Sections 1 and 5) and an updated version of the Fundraising Costs paper.
Other supporting items	PAGCP03- 01 Preface  PAGCP03-02 CP Part 1 Section 1 and 5  PAGCP03 – 03 Fundraising Costs
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Actions for this meeting	<u>Note</u> the points raised by the PAG, and  <u>Comment</u> on the proposed way forward

# Technical Advisory Group

## Feedback from the PAG

### 1. Background

- 1.1 The PAG met on the 17 June to consider a number of papers; the structure of the Consultation Paper, the Preface to the Consultation Paper, Sections 1 and 5 to Part 1 of the Consultation Paper and an updated version of the Fundraising Costs paper (last seen by the TAG in January).
- 1.2 The purpose of sharing these papers were to:
  - Familiarise the PAG with the structure of the Consultation Paper and obtain feedback
  - Seek feedback on the Preface, specifically the project objectives, the Consultation Paper objectives and the intended audiences for Part 1 and Part 2
  - Seek feedback on the description of the entities that might benefit from the Guidance (Part 1 Section 1)
  - Seek feedback on the framing of the proposed way forward (Part 1 Section 5)
  - Seek feedback on the Fundraising costs topic papers, where the topic paper format has evolved considerably since the last topic paper specifically considered by the PAG.

### 2. Key points arising

- 2.1 There were a number of points arising from the discussion, which are summarised below. Annex A contains a fuller list of the points made on each of the papers, together with a proposed way forward.

#### Structure

- PAG members were generally supportive of the structure of the Consultation Paper as described in the Contents Page.

- Members reflected on the importance of the titles used for each item so that stakeholders can more easily identify that the Consultation Paper is relevant to them. For example, some members felt that 'Fund Accounting' should appear in the title of the relevant paper as it is an important issue and the word 'stakeholder' is not in any of the chapter titles.

### Preface

- On the Preface it was suggested by more than one member that paragraphs 1.1 and 1.2 are swapped so that readers would not think the project was only about international NPOs.
- There were some observations on the objectives and the need to convey the importance of credibility and trust. Some PAG members felt the objectives should be kept wide to be as inclusive as possible. There were also questions about whether the objectives were duplicative.

### Part 1: Section 1

- PAG members questioned whether voluntary funding sources are a key characteristic of NPOs given experience of increased exchange transactions and raised concerns about references to being able to make profits. A number of members felt that the social objectives and the lack of distributions were the key points. There were also requests to consider referencing more clearly the work carried out by John Hopkins on NPO classification.
- PAG members broadly supported the intention of guidance application regarding larger NPOs, but felt that the drafting could be improved.
- PAG members noted that large organisations can keep their accounting records on a cash basis and the description of cash basis with micro entities might cause confusion.

### Part 1: Section 5

- Concerns were raised about the use of the terms 'straw man' and 'bespoke model' and a preference for the use of 'proposal or proposed way forward'.
- Some members were concerned that IFRS for SMEs didn't have the same conceptual base and lagged IFRS and that it wasn't in reality widely taken up.



- 2.2 A number of PAG members would like further discussions about the different bases of accounts, ie accruals, cash and modified cash. This is in the context of their experiences with the predominance of cash accounting being used by organisations of various sizes and being required by donors, related potential capacity issues in NPOs and the use of modified cash in a number of jurisdictions. The language in the CP needs to, as far as possible, prevent potential respondents from excluding themselves.

### 3. Proposed way forward

- 3.1 A meeting will be organised with interested PAG members within the next 4 weeks to explore in more detail the points around the basis of accounting. This will be important to test the arguments in Part 1 of the Consultation Paper on the use of accrual accounting and to test the related General Matters for Comment currently being proposed.
- 3.2 In response to the points raised, a suggested way forward is proposed. Some of these may be more straightforward, but others may require further consideration by the TAG. Annex A includes the suggested way forward. A number of items will be raised for specific discussion, and feedback is welcome on any of the points raised.

Question 1: Does the TAG agree with the proposed way forward?

June 2020



## Annex A

### General Points

	Feedback	Proposed way forward
1	Many NPOs feel compelled to maintain their accounts on a cash or modified cash basis to meet donor requirements. Positioning this critical to resolve and will impact the success of this project.	Separate meeting with interested PAG members to discuss concerns about how the cash and modified cash bases are reflected in the CP.
2	We should consider the numbering used so that users can easily locate the guidance they need	This will be addressed in the next phase of the project as we have firmer proposals about what will be in the document and its structure.

### Structure of the CP

3	Fund Accounting should be clearly identified on the Contents Page. There was a counter view that this is only a northern hemisphere issue and it might not be appropriate for it to be made a major issue.	This issue is covered in the Financial Statement Presentation paper. Suggest that '(including Fund Accounting)' is added to the paper title
4	The title of the Agency Relationships paper may have a different meaning in other jurisdictions, including that 'agency' means a donor organisation.	Propose to change the title to 'NPOs acting on behalf of other entities'. Note: the term agency is defined in the glossary.
5	Highlight stakeholders in the headings so that they can identify that the Consultation Paper is relevant to them	Propose to review the title of all document sections to create more visual signposts for potential readers and specifically stakeholders.
6	Could not see donations of capital assets. Could it be clearer that this is included in Gifts in-Kind.	Propose to include '(including capital assets and inventory)' after the main title where this is shown as a separate topic heading.
7	Service potential is not a term understood in all jurisdictions ie in the topic title 'measurement of assets held for their service potential'	Propose to change the words 'service potential' to 'social benefit'

### Preface

8	Suggest swapping 1.1 and 1.2 as the introductory sentence refers to organisations that operate internationally and this might make some organisations think the CP is not for them	Propose to swap paras 1.1 and 1.2 as suggested
9	"International accounting standards" sounds like this only applies to international NPOs. "There are no common accounting standards" would cover all NPOs. The problem is not cross-border operations,	Propose to use the word 'common' more in the narrative – perhaps 'common standardised guidance that is internationally applicable'



	but a common standard for NPOs.	
10	Credibility and trust are important, but these words do not feature in the objectives or in the narrative in the Preface.	Agreed that these are important to the project. Propose to incorporate into the next version of the Preface.
11	Need to say a bit more about why we have international standards and trust is part of that	It is proposed to include a reference in the Preface. More is said in section 3 of the CP.
12	Suggest that we shouldn't box ourselves in too early and therefore not sure whether the size of entity needs to be included in the objective	Propose to remove the reference to type of entity in objective 1 and include in the Preface appropriate references to material in Part 1 that describes the main beneficiaries.
13	The differences between objectives 1 and 3 are not clear and drafting changes could improve this. If objective 1 is shortened, is objective 3 needed?	Propose to amend both objectives 1 and 3 in the next version of the Preface, with objective 3 focusing on comparability
14	Objectives 2 and 3 look to me more or less the same. Is Objective 1 aiming at grantors or those doing due diligence of an organisation and objective 2 about internal or external decision makers?	Propose to amend the wording of objectives and incorporate the changes into the next version of the Preface to make clearer the difference between the objectives.
15	Could we assert that the Guidance <i>may</i> be relied upon where other 'standards' do not address issues specific to the non-profit sector. Also, this Guidance <i>may</i> serve as a basis for a future international accounting standard for NPOs.	Will consider how to frame the potential future use of the Guidance taking account of local adoption decisions.
16	Support that the language is inclusive to ensure consultation is with organisations of all sizes. The target audience difficult to ascertain from the language used and don't refer to size or complexity?	Propose to review the language with a view to inclusivity. Propose to move the description of the target audience to Section 5 to sit alongside the proposed way forward.
17	Please elaborate on how Objective 2 needs to balance between users and preparers? Are preparers the NPO and users are external to NPO. What about NPO top management?	Propose to use the glossary to explain what is meant by 'users' and 'preparers' and also to signpost sections of the CP in the Preface.
18	Grantee organisations will implement if either compelled via law or grantors, or it is compelling to top management who want to enable their decision making, because they are resource poor.	Noted



Part 1: Section 1

19	In Figure 1.1 don't see voluntary funding as the key characteristic as seeing more and more exchange transactions. See characteristics 1 and 3 as more important.	Propose to retain voluntary funding as a characteristic but move it to third position
20	Should add 'voluntary funding' to the glossary	Propose to add this to the glossary
21	India has hybrid organisations with distributions to members. Also Thailand has new legislation that an entity can be a social enterprise if it doesn't distribute more than 30% of its profits	Noted. Propose to convey in the CP that organisations that are not NPOs might also find the guidance useful for individual transactions.
22	There are grey areas as some organisations that might be regarded as NPOs have profit making activities.	Propose to retain the characteristics as they are not proposed to be rules.
23	The concept of service delivery can be problematic and think the crux is not being able to distribute profit. The words 'service without expectations' might resonate more in Asia.	Propose to retain the characteristics as they are not proposed to be rules.
24	Should there be a new characteristic about how NPOs are treated for tax purposes	There are few countries that have different treatments for tax purposes so this would not be generally applicable.
25	Why are we not referencing the John Hopkins classification of NPOs and that these cover entities that are independent of government.	Make clearer the use of the John Hopkins classification already referenced in Section 1 and also that further information is in the Supplementary Information.
26	Make clearer what the key economic transactions and events are and why the existing frameworks don't deal with these.	Improve the links to the further information about the thinking behind the proposed approach to NPO definition included in the Supplementary Information.
27	Size matters and our standard needs to be accessible to all organisations. It should provide a road map for small organisations to grow into large organisations as their reporting gets more complex. Also large organisations might also benefit from the Guidance.	The intent is not to exclude any entity. Propose to review the wording to make this clearer.
28	Why exclude the micros - these often need the guidance the most.	The intent is not to exclude any entity. Propose to review the wording to make this clearer. Note that the focus on the project is on accrual based guidance, which may be less relevant to micro entities.
29	There might be other topics that are important to small and medium sized entities like foreign exchange	The Consultation Paper will provide an opportunity to suggest other topics and why they are critical.



30	Without addressing the cash question and getting grantor buy in, many NPO's are not resourced enough to do cash for grantors and accruals for this standard.	Noted
31	The likely users of this Guidance (size and geo reach of the NPO) is a fundamental question we keep avoiding	To be considered further after the discussion of point 1 above. The proposed text in section 1 attempts to address this point.
32	Point 1.12... what is the basis of the statement 'it is expected that these major international NPO's will have sufficient internal resource to be able to develop their own financial ....'. has there been a survey.	Propose to delete this reference.
33	Many medium sized orgs operate on a cash basis due to grantor requirements. It is not a good generalisation that only micro do cash-based thinking	Propose to make clear that any size of entity can currently maintain its accounts on a cash basis.
34	Scotland also has a cash accounting standard for its charities. And of course CCEW allows cash accounting but doesn't provide a standard!	Noted
35	Many organizations are using the modified cash basis to prepare financial statements.	No further action as this is addressed in section 3 of Part 1 not yet seen by the PAG
36	Survey or other stratification of NPOs would help. If the org is working with over \$5M they are probably grant funded	Propose to maintain the current approach using principles based on narrative description and make clearer that all organisations can use the guidance. Each jurisdiction will determine which entities are in scope for their jurisdiction.
37	Fig 1.2 in the draft has the initial focus on grant based entities. The elephant in the room is cash-based reports.	To be explored further as part of the discussion on bases of accounting proposed in response to point 1 above.

## Part 1: Section 5

38	Replace the term straw man as it doesn't translate internationally with proposed approach.	Propose to remove the straw man from the next draft of this section and change to 'proposal'..
39	Suggest that the term 'bespoke model' is not helpful and replace with 'proposal'	Propose to refer to 'a proposed way forward or proposal' instead of the term 'bespoke model'.
40	Concerned with IFRS for SMEs as the start point as it has a different conceptual basis to IFRS and is not up to date. The paper should make clear that there are other options and that the proposal is for	Propose to make clearer that this is one proposal based on existing literature and that is to facilitate a response against a common start point, similar to the Preface.





	the purposes of the Consultation Paper	
41	There is concern as to the extent to which IFRS for SMEs is currently used and the level of familiarisation with the standard across the sector.	Propose to address this concern by a question in the General Matters for Comment about the use of IFRS for SMEs
42	The logical flow that an international standard needs to be the starting point seems okay, until we acknowledge that is the reason cited that we cant do modified cash.	This point will be explored further as part of the discussion on bases of accounting proposed in response to point 1 above.
43	The third bullet of 5.6 might not be true as. Donor auditors don't start with IFRS. Regulators are the national NGO board (using SORP or the Uganda Companies Act)	Propose to consider the wording on this point as part of the next draft of the section and linkages with Section 4.

### Fundraising Costs

44	A question was raised about what is unique about fundraising costs for NPOs and not covered by international accounting standards	This is a useful way to think about the issue and the ordering of the points. Propose to amend and review existing points.
45	Some donors (eg USAID) require you to analyse fundraising costs in your reports. So, the users of the IFR4NPO guidance need to think about fundraising costs just as they think about direct and indirect definitions.	This will be considered at Exposure Draft stage.
46	There seems to be some duplication between sections 1 and 2 regarding gross and net reporting and was a little confused on the structure	Propose to remove the point in section 1 in the next draft.
47	Can the issues in section 1 be re-ordered as the phrasing of the first point raises a point that is addressed further in 1.7.	Propose to reorder the points to ensure that these points flow in the next draft.
48	Section 4 of the document might be a bit thin, is this all the information that we have from national standard setters.	Noted. No further action is proposed as more detail is included in Annex A.
49	Felt that nature of spend was not a consideration for 2.1 and that fundraising costs are entirely a matter of functional analysis.	Propose to review the wording to emphasise the likelihood of a functional analysis but retain nature of spend as a possibility.
50	The example of the museum is not a good one. The FASB guidance provides good example.	Propose to provide a different example for the next draft.