



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGCP11-03

13 October 2020 – Online

Feedback on the Draft Consultation Paper - Part 1

Summary	This paper highlights the main areas of feedback on Part 1 of the Consultation Paper.
Purpose/Objective of the paper	This paper describes at a high level the most significant issues arising from the feedback from TAG and PAG members on Part 1 of the Consultation Paper and the proposed way forward. Detailed edits are included in a track change updated draft of this part of the Consultation Paper included as Annex A. A clean copy is provided as Annex B.
Other supporting items	TAGCP11-02, TAGCP11-04 and TAGCP11-05
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Actions for this meeting	<u>Comment</u> on the proposed way forward.

Technical Advisory Group

Review of draft of CP Part 1: Issues raised

1. Background

- 1.1 As highlighted in the paper TAGCP11-02 a full draft of the Consultation Paper was provided to members of the Technical Advisory Group (TAG) and Practitioner Advisory Group (PAG) in July 2020 for internal review.
- 1.2 General matters and issues raised with the Preface have been covered in the paper TAGCP11-02. This paper focuses on the most significant issues raised in each Chapter of Part 1 of the Consultation Paper.
- 1.3 The PAG met to consider the proposed way forward in relation to the most significant issues raised on Thursday 24 September 2020. They were also provided with some proposed textual changes to sections of Part 1 of the Consultation Paper for comment. They were not presented with a full track change updated draft as this had not been finalised at the time of their meeting. Where relevant, the views of the PAG on the proposed changes is highlighted below.

2. Chapter 1: What are Non-Profit Organisations?

- 2.1 Chapter 1 provides readers with an overview of the broad characteristics approach that has been developed to describe NPOs. It aims to show that the Guidance being developed will be useful to a wide range of entities that display these broad characteristics and account for similar economic events and transactions, subject to the decision of individual jurisdictions and the requirements of funders. There were two main issues raised with this Chapter.
- 2.2 Several members raised questions about the figure and associated description of NPOs overlapping with the for-profit private sector and public sector government controlled entities. They noted that the non-profit sector would not overlap with for-profits, that a reference to private sector in their jurisdictions would not imply for-profit entities only, and that the description could potentially include government-business entities. It is proposed to update the figure to better reflect the relationship between the different sectors.



- 2.3 This issue overlaps with the use of existing international frameworks for describing NPOs that is covered primarily in the Supplementary Information to the Consultation Paper. As will be highlighted in TAGCP11-05, PAG members have raised comments on the approach taken to the use of these existing frameworks.
- 2.4 It is proposed to better align the description of the non-profit sector used in Part 1 to existing international frameworks. This will use the structural and operational features of NPOs identified in these existing frameworks and supplement them with a greater focus on key economic events and transactions relevant to the non-profit sector.
- 2.5 The second significant issue relates to the positioning of the text that indicates which NPOs are most likely to benefit from the development of the Guidance. Previous drafts had included this text in Chapter 1, but this version of the Consultation Paper now includes the text in Chapter 5 as part of the proposed way forward. Some members felt that this text should be returned to Chapter 1 or earlier in the Consultation Paper when explaining the project objectives.
- 2.6 It is proposed to retain this text in Chapter 5, but to include text about who the Guidance is most likely to benefit in the Executive Summary. It is also proposed to improve the link between the accountability and decision-making needs of stakeholders and users of financial information with who might use the Guidance with a new paragraph in Chapter 1.
- 2.7 The PAG were generally supportive of the proposed approach to changes to reflect the issues raised. Some members did, however, raise the broader issue of a need to ensure that there is clarity as to whom the Consultation Paper is targeted at i.e. is it primarily NPOs, regulators, standard setters, or users.

Question 1: What are the TAG's views on the proposed way forward?

Question 2: Are there any other significant issues relating to Chapter 1 that the project should consider?

3. Chapter 2: Who are NPO stakeholders and what are their needs?

- 3.1 Several members noted that paragraphs 2.11 to 2.16 covered a broad range of service, performance, and management information and were not primarily related to financial accounting information. The intention of these paragraphs, is to show the information needs of stakeholders more generally and not just users of an NPOs financial accounts. It is therefore proposed that the distinction between the information needs of stakeholders as a group and the information need of users (a subset of stakeholders) be improved.
- 3.2 Members also noted that there was insufficient distinction in these paragraphs on the difference between accountability and decision-making. This is accepted and it is proposed to amend this content to better delineate accountability and decision-making needs.
- 3.3 Some members questioned a number of assertions made in this Chapter. These included the extent to which donors make decisions based on the financial reporting that will be covered in the Guidance, and whether different donor reporting requirements are driven by their own reporting needs rather than an absence of common reporting standards and formats. It is proposed to amend wording in this area to soften some of the assertions made to reflect these comments.
- 3.4 The PAG were supportive of the proposed changes and the softening of the assertions made and to reflect the limits of what the Guidance can be expected to achieve.

Question 3: What are the TAG's views on the proposed way forward?

Question 4: Are there any other significant issues relating to Chapter 2 that the project should consider?



4. Chapter 3: What are the essential aspects of NPO Financial Reporting Guidance?

- 4.1 Some members felt that insufficient introductory explanation was provided in paragraph 3.2. as to why the two premises (accrual-based accounting and the inclusion of narrative forms of reporting) are core. It is not proposed to introduce a significant amount of further introductory text but to better link the discussion in the introductory section to Chapter 2 and the distinction between the information needs of stakeholders and those of users of financial information.
- 4.2 One member also noted that it needed to be recognised in 3.13 that some donors do utilise modified cash accounting and reporting and face challenges with respect to non-financial reporting needs and budget versus actual analysis. It is proposed that text is included in this paragraph to reflect this.
- 4.3 Finally some members fed back that the section of this Chapter relating to the different types of financial report should include Special Purpose Financial Reports. These would combine the donors' rules and financial formats but also include programme and contract related management commentary. Special Purpose Financial Reports as currently included in this section was meant to cover both special purpose financial statements and this broader type of special purpose reporting so Paragraphs 3.21 and 3.22 will be amended to reflect this.

Question 5: What are the TAG's views on the proposed way forward?

Question 6: Are there any other significant issues relating to Chapter 3 that the project should consider?

5. Chapter 4: How far can international financial reporting regimes assist NPOs?

- 5.1 Several members indicated that the argument as to why an international framework would provide a better solution to NPO specific issues than a national framework or standard tailored to NPOs was not sufficiently clear. It is proposed to amend paragraphs 4.3 to 4.7 to strengthen the argument regarding an international framework as the foundation for the Guidance.



- 5.2 Members also raised a number of issues related to Figure 4.2: Guidance provided by frameworks to sector specific issues identified. These included confusion over the mixed colours, and recommendations to simplify both the explanatory legend and the main table. It is proposed to simplify the table with a reduction in colours, description of applicability, and detail. Readers will be directed to the content in the Supplementary Information should they wish to further understand the ratings.
- 5.3 Questions were raised about whether the Chapter accurately reflected the familiarity of preparers, users, and auditors with IFRS for SMEs. Figures on jurisdiction use have been taken from the IASB website. It is agreed that the wording currently in paragraph 4.32. that familiarity could be at least as prevalent as for full IFRS may overstate the actual situation. It is proposed to amend this text and flow this through to relevant areas in Chapter 5.
- 5.4 Finally, members also questioned whether IFRS for SMEs was a stable framework given that it is currently undergoing comprehensive review. The argument regarding stability in the Consultation Paper is not that the IFRS for SMEs framework is never revised, but rather that it is subject to less frequent revision than other frameworks. It is proposed that wording in paragraph 4.42 will be clarified to strengthen this argument.
- 5.5 While supporting the changes made to clarify why an international framework would be used as a foundation for the Guidance, some PAG members continued to question how familiarity with IFRS for SMEs was to be presented. In particular they reiterated concerns as to the extent to which it is actually used internationally.

Question 7: What are the TAG's views on the proposed way forward?

Question 8: Are there any other significant issues relating to Chapter 4 that the project should consider?

6. Chapter 5: Proposed way forward

- 6.1 Some members disagreed with the use of IFRS for SMEs as the foundational framework for the Guidance. This was partly due to the issues raised in Chapter 4 with respect to familiarity and stability. The disagreement was also, however, based on IFRS for SMEs having been developed for for-profit entities and the expected need for significant adaptations to reflect the non-profit context. It is proposed that paragraph 5.5 is amended to reflect amendments to Chapter 4.
- 6.2 Finally, one respondent raised concerns with Figure 5.3 and in particular the grid used to show areas of service delivery and sources of funding. The suggestion is to focus instead on whether reporting needs are simple or complex rather than on areas of service deliver and sources of funding. The two current axes to this grid are intended to highlight in simplest terms factors that drive complexity of financial management and reporting. The Secretariat's view is that the proposed changes do not improve the argument made in paragraphs 5.13 to 5.15. It is therefore not proposed to make substantive changes to the figure, although as part of the design process changes to the presentation are currently being explored.
- 6.3 At their meeting some PAG members continued to question the use of IFRS for SMEs as a foundational framework, although there was acceptance that the proposed model was based on a pragmatic compromise that reflected the options currently available to the project.

Question 9: What are the TAG's views on the proposed way forward?

Question 10: Are there any other significant issues relating to Chapter 5 that the project should consider?

October 2020