



# IFR4NPO Project

Feedback on Part 2



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# Feedback – Part 2

	Issue	Proposed Way Forward
	Part 2 - Overview	
1	Inconsistent use of terminology including the use of users and stakeholders, performance statement and income statement and accrual-based and accruals-based.	See response in Feedback – General Matters and Preface
2	Positioning of foreign exchange transactions in the list of issues	Clarify with the PAG and the TAG the nature of the issue regarding exchange transactions to make a determination on its positioning.
3	Should a schedule of Expenses for donor funds (prepared from NPO general purpose financial statements) be included in the list of issues.	<p>Issue Paper 7 – Financial Statement Presentation an additional schedule for donor reporting in alternative 3. It is proposed to retain this alternative as written:</p> <p><b>Alternative three</b> builds on alternative two and adds a new requirement to provide supplementary donor or project statements for material funds or projects. This supplementary information could be part of the financial statements or form part of the notes to the accounts and could be on a cash or accrual basis. This goes beyond existing requirements globally and has the potential to meet the reporting needs of major donors</p>

# Feedback – Part 2

	Issue	Proposed Way Forward
4	It would be helpful if a contents page for Part 2	Agreed to add a contents page at the beginning of Part 2
5	Advantages and disadvantages that are common to all alternatives should be removed from the alternatives table	Agreed that common advantages and disadvantages be removed from the alternatives table. Where they arise from additional guidance common to all alternatives they will be discussed in the narrative part of section 5 on alternatives
6	The need for section 4 was raised about a couple of the issues papers	It is proposed to retain section 4 to highlight different approaches in national guidance but to remove Annex A from all issues papers and to include them instead as part of Supplementary Information (International and national financial reporting standards and guidance for NPOs.

# Part 2 – General Matters

- Main points for discussion:
  - What is the most appropriate description of NPO specific issues with foreign exchange?
  - Are there concerns about the number of alternatives for each issue. Is six too many?
  - The proposal that advantages and disadvantages common to all alternatives are not included in the table of alternatives

# Feedback – Part 2

	Issue	Proposed Way Forward
	Section 1 – Reporting Entity	
7	Include more detail about the complex structures that NPOs might experience (issue paper 1; paragraph 1.2)	It is proposed to make no change to the text in Part 2, but to include further detail about complex structures in explainer videos that will be developed to accompany the Consultation Paper when it is launched.
8	Further consideration may need to be given to the application of control tests as it may not be merely a matter of adapting existing guidance such as shareholder influence (Issue paper 1: paragraph 2.3)	Agreed that this will require further consideration and will be picked up in the development of the Exposure Draft.
9	<p>The text of alternatives 3 and 2 are too similar (Issue paper 2: table of alternatives), whilst the alternatives are different:</p> <p><b>Alternative 2</b> Follow IFRS for SMEs where decisions on agent and principal are made on an exposure to risks and rewards</p> <p><b>Alternative 3</b> Follow IPSAS where decisions on agent and principal are made on an exposure to risks and rewards.</p>	It is proposed to retain the alternatives as they are based on different international frameworks. With IFRS for SMEs and relevant IPSAS currently under review, both of these alternatives may in practice be the same as alternative 1. This is described in Section 5. Opportunities to consolidate repetitive text will be examined.

# Part 2 – Reporting entity

- Main points for discussion:
  - Is the TAG content with the proposed alternatives for Issue Paper 2
  - Is the TAG content with the SMCs

# Feedback – Part 2

	Issue	Proposed Way Forward
	<b>Section 2 - Revenue</b>	
10	Issue paper 3 on revenue should focus on non-exchange transactions, which are NPO specific and exchange transactions removed	Agreed. Issue paper 3 will be redrafted to remove exchange transactions and focus only on non-exchange transactions. No NPO specific issues regarding exchange transactions have been identified to date. Exchange transactions will be addressed in the overview text for the issue paper. It is still proposed that additional guidance would help preparers navigate what is an exchange transaction and what isn't in an NPO context.
11	Remove existing subheadings from section 1 and 2 and organise the text around recognition, measurement and disclosure	Agreed. The subheadings for cash transfers, gifts in kind and services in kind will be removed from sections 1 and 2. New subheadings will be created for recognition, measurement and disclosure. Paragraphs will be grouped under these heading. The table identifying which paragraphs relate to particular types of revenue transactions will be retained in section 2.
12	Cash transfers has a specific meaning for NPOs which is not in line with the intentions of this issue paper	It is proposed to change the term 'cash transfers' to 'cash contributions'
13	There is duplication between sections 1 and 2 of the revenue paper and these sections could be combined.	It is proposed to retain sections 1 and 2 in common with the other issues papers. Recognising the points about duplication it is proposed to substantially redraft section 1 to make it a higher level description of the issues with more granular descriptions of the financial reporting challenges in section 2.

# Feedback – Part 2

	Issue	Proposed Way Forward
14	Incorporate a table that shows the accounting basis of each of the revenue alternatives	Agreed. A new summary table will be inserted in the revenue issue paper. In addition, consideration will be given to whether this might be useful in any of the other issues papers.
15	There are too many alternatives in the revenue issues papers, with some alternatives producing the same or similar outcomes:	Some alternatives were driven by different treatments of exchange transactions. With the proposal to remove exchange transactions from the issue paper, it is proposed to reduce the list of alternatives to four by combining alternatives 3 and 5 and removing alternative 6. Alternative 1 will be based on IFRS for SMEs, Alternative 2 on full IFRS, Alternative 3 on IPSAS and Alternative 4 on IPSAS with exceptions.
16	Concern was raised about the use of materiality in the alternatives table for revenue to not apply accounting standards: <b>Technical disadvantage:</b> NPOs may rely on general materiality provisions to avoid recognising gifts in-kind and services in-kind.	The use of materiality in applying accounting standards is appropriate and therefore it is proposed to delete this technical disadvantage.

# Part 2 – Revenue

- Main points for discussion:
  - Is the TAG content with the proposal that the revenue issue paper focuses on non-exchange and exchange transactions are removed
  - Is the TAG content with the revised alternatives for the revenue issue paper?
  - Is the TAG content with the SMCs?

# Feedback – Part 2

	Issue	Proposed Way Forward
	Section 3 – Grant Expenses	
17	<p>Introduce the terms service recipient and grant recipient to distinguish between different parties in the following paragraph:</p> <p><b>Grants arrangements can be complex, involving multiple agencies.</b> For example, NPOs may award grants to NPOs who in turn pass the funds on to other NPOs with only the final recipient providing specific services to recipients. The final recipient will be the body carrying out the activity or function. These types of arrangements may create separate obligations to each grant awarding body. There may be different recognition points for grant expenses depending on the specifics of the transactions. Such complex arrangements may impact on measurement.</p>	<p>Text will be changed to:</p> <p><b>Grants arrangements can be complex, involving multiple agencies.</b> For example, NPOs may award grants to NPOs (<u>grant recipients</u>) who in turn pass the funds <u>and other assets</u> on to other NPOs with only the final <u>grant</u> recipient providing specific services to <u>service</u> recipients. The final <u>grant</u> recipient will be the body carrying out the activity or function. These types of arrangements may create separate obligations <del>to</del><u>for</u> each grant awarding body. There <del>may</del><u>will</u> be different recognition points for grant expenses depending on the specifics of the transactions. Such complex arrangements may <u>also</u> impact on measurement.</p>
18	<p>The differences between alternative 2 and alternative 3 on grant expenses is not clear. All alternatives refer to additional guidance including disclosures and alternative 3 additionally refers to additional disclosures.</p>	<p>Following further review it is proposed to remove alternative 3, with the additional guidance recommending relevant disclosures.</p>

# Part 2 – Grant expenses

- Main points for discussion:
  - Is the TAG content with the revised alternatives for this issue paper?
  - Is the TAG content with the SMCs?

# Feedback – Part 2

	Issue	Proposed Way Forward
	Section 4 – Non-financial assets	
19	In measuring non-financial assets, a questioned was raised about whether service potential is similar to value in use.	Both terms feature in current standards. The terms will be reviewed, informed by current work by IPSASB and a view taken whether both should continue to be used. If both are used they will be defined in the glossary
20	Is s20 of IFRS for SMEs included in issue paper 5 because of finance leases	This reference will be removed from the text. This is an oversight from when all other references to finance leases were removed.



# Part 2 – Non-financial assets

- Main points for discussion:
  - Does the TAG have any further comments on these issues papers?

# Feedback – Part 2

	Issue	Proposed Way Forward
	Section 5 – Presentation, scope and content of financial statements	
21	<p>Should the wording in paragraph 1.2 of issue paper 7 (Presentation of Financial Statements) refer to reserves or alternatively economic resources:</p> <p>It may not be clear which amounts in the financial statements can be used by the NPO for its ongoing activities, and which can only be used in relation to the purposes for which they were given.</p>	<p>It is agreed that the current language is not broad enough and that the paragraph be adjusted as follows:</p> <p>It may not be clear which <del>amounts</del> <u>resources and reserves reported</u> in the financial statements can be used by the NPO for its ongoing activities, and which can only be used in relation to the purposes for which they were given.</p>
22	<p>There are too many alternatives on classification of expenses (extract):</p> <p><b>Alternative 1</b> follows IFRS, IFRS for SMEs and IPSAS, and allows either analysis by nature or function.</p> <p><b>Alternative 2</b> allows a choice as in alternative 1, but requires presentation on the face of the performance statement.</p> <p><b>Alternative 3</b> requires a by nature analysis of expenses.</p> <p><b>Alternative 4</b> requires a functional analysis of expenses.</p> <p><b>Alternative 5</b> would require both methods to be produced, and a choice as to which is used for the primary statement.</p> <p><b>Alternative 6</b> proposes a hybrid of nature and function</p>	<p>It is proposed to reduce the alternatives to 4 as follows:</p> <p><b>Alternative 1</b> follows IFRS, IFRS for SMEs and IPSAS, and <u>allows a choice</u> of either analysis by nature or function, with presentation on the primary statement.</p> <p><b>Alternative 2</b> would remove the choice and <u>require</u> either a by nature or functional analysis of expenses on the primary statement.</p> <p><b>Alternative 3</b> would <u>require</u> both methods to be produced, and a choice as to which is used for the primary statement.</p> <p><b>Alternative 4</b> proposes a hybrid of nature and function</p>

# Feedback – Part 2

	Issue	Proposed Way Forward
23	<p>The classification of expense paper does not describe the practical issues. Paragraph 2.5 from issue paper 8 (Classification of expenses) say:</p> <p><b>Analysis by nature and function may result in additional costs.</b> If analysis of expenses is carried out by both nature and function, this will require financial systems to provide information which is detailed and multi-layered. Smaller and particularly the smallest NPOs may not have systems to be able to produce such information without significant additional costs.</p>	<p>Agreed. It is proposed to amend the existing paragraph as follows:</p> <p><b>Analysis by nature and function may not be readily produced from the NPO’s accounting system and result in additional costs.</b></p> <p>Accounting systems that normally classify costs by nature, may lack the functionality to assign specific costs to both an account (for the natural classification) and an additional element to denote activity. If analysis of expenses is carried out by both nature and function, this will require financial systems to provide information which is detailed and multi-layered. Smaller and particularly the smallest NPOs may not have systems to be able to produce such information without significant additional costs.</p>
24	<p>Questions were raised about what is meant by direct fundraising costs? Are they direct costs attributable to fundraising and will direct and indirect costs be presented separately. The current text reads:</p> <p><b>There may be benefits in standardising the definition of fundraising costs.</b> The most significant consideration would be how to define the fundraising costs in a way that can be applied across the NPO sector. The Guidance could address the presentation of direct fundraising costs, the treatment of business development costs, the basis of allocation of overheads and disclosure requirements.</p>	<p>It is proposed to amend the paragraph as follows:</p> <p><b>There may be benefits in standardising the definition of fundraising costs.</b> The most significant consideration would be how to define the fundraising costs in a way that can be applied across the NPO sector. The Guidance could address the presentation of costs directly involved in fundraising, the treatment of business development costs, the basis of allocation of overheads and how these are individually or collectively disclosed.</p>

# Feedback – Part 2

	Issue	Proposed Way Forward
25	We need to explain why segmental reporting has been included in issue paper 9 (Fundraising costs) – paragraphs 3.4-3.7 and the implications	Agreed. It is proposed to include additional text as follows: Fundraising costs could be a segment as defined by international accounting standards if it is used as part of an entity's management information to the chief officer. If segmental reporting was adopted for fundraising costs, however other parts of the business would need to be reported in the same way. Adopting segmental reporting would require analysis of segment income, expenses, assets and liabilities for the whole entity.
26	In issue paper 10 is using IIRC consistent with Part 1	It is proposed to explain that the proposal for IIRC is consistent with the use of international frameworks but recognise that this is a framework not discussed in Part 1. Additional text is proposed as follows: <b>Alternative 3</b> proposes to move ahead of current international accounting guidance and move to the International Integrated Reporting Council framework. This could be tailored for NPOs and enable a comprehensive view of an organisation's resources and relationships and how it has used these and plans to use them over time. In tailoring for NPOs, this would focus on the needs of NPO stakeholder groups. This alternative, arguably goes beyond the proposed way forward in Part 1: Chapter 5, but given the flexibility inherent in the IIRC <i>Framework</i> and its status as an international framework, the case can be made that it is consistent with that proposed way forward.

# Part 2 – Specific topics

- Main points for discussion:
  - Is the TAG content with the alternatives for the classification of expenses paper?
  - Is the TAG content with the references to segmental reporting?
  - Is the TAG content with the positioning of the IIRC?
  - Is the TAG content with the SMCs?