



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED01-02

3 March 2021 – Online

## Developing the Guidance

Summary	The paper recommences the discussion on the format of the Guidance.
Purpose/Objective of the paper	This paper looks at options available for presenting the Guidance now that a model for developing the Guidance has been proposed. The objective of the paper is to consider the advantages and disadvantages of different approaches.
Other supporting items	N/A
Prepared by	Karen Sanderson
Actions for this meeting	<u>Comment</u> on Guidance development options.

# Technical Advisory Group

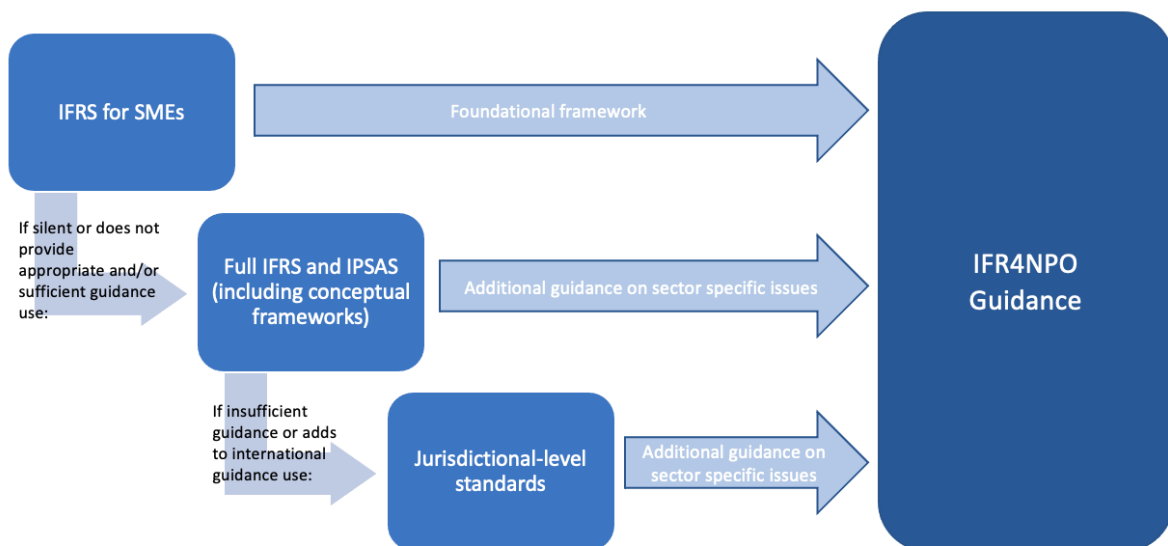
## Developing the Guidance

### 1. Background

- 1.1 As we have previously discussed, the NPO sector is hugely diverse. For those that benefit from the operations of these organisations that is a major strength, however, this then poses huge challenges in developing and setting standards specifically for the sector and providing effective guidance.
- 1.2 At the inaugural meeting of the TAG in October 2019, there were initial discussions about the format of the Guidance, in other words, what might the Guidance look like. However, at that time there were too many unknowns to fully consider how best to present the Guidance. With a proposed model having now been developed, it is opportune to revisit this subject. This is particularly important given the proposal that the *IFRS for SMEs* Standard is used as the foundation for the Guidance.

### 2. Format Options

- 2.1 As discussed in Chapter 5 of Part 1 of the Consultation Paper, the proposal is to develop guidance based on the following model.



2.2

- 2.3 So the Guidance proposes to use the *IFRS for SMEs* Standard as its foundation, with the use of other international and national standards, as well as the conceptual frameworks that underpin the international standards. With the *IFRS for SMEs* Standard as the foundation, it will provide financial reporting guidance where there is not an NPO-specific issue, or where the project is not yet addressing an NPO-specific issue.
- 2.4 With a mixture of NPO specific and general financial reporting requirements and guidance, the format of the Guidance is important to ensure that it is accessible and user friendly for users.
- 2.5 Based on examples from around the world, there appear to be three broad potential options for guidance:
- 2.6 **Option 1:** Establish the Guidance as a ‘companion guide’ that sits alongside the *IFRS for SMEs* Standard that can be used by practitioners in addition to the standard itself; and
- 2.7 **Option 2:** Add additional explanatory text to the *IFRS for SMEs* Standard using explanatory text boxes and/or annexes.
- 2.8 **Option 3:** Develop stand-alone Guidance that incorporates the requirements of the *IFRS for SMEs* Standard, providing guidance and interpretations relating specifically to the NPO sector;
- 2.9 There are advantages and disadvantages to each of these options. In the table below these are examined in the context of:
- a. Ease of use
  - b. Ease of development
  - c. Ease of maintenance



	Advantages	Disadvantages
Option 1 – Companion Guide	<ul style="list-style-type: none"> <li>• Quicker to develop as only focused on NPO specific issues and so has a limited scope.</li> <li>• Easier to develop over time to bring in new NPO-specific issues.</li> <li>• Able to provide extensive NPO-specific examples.</li> <li>• Easier to maintain as it is likely that updates will be focused on specific areas with more limited changes.</li> </ul>	<ul style="list-style-type: none"> <li>• May be more difficult for preparers and auditors to use as they will have to read two documents and consider the interplay between them.</li> <li>• The companion guide may create unintended conflicts.</li> <li>• Limited update flexibility as the Guidance will need to be updated at the same times as updates to the <i>IFRS for SMEs</i> Standard.</li> </ul>
Option 2 – Embedded text	<ul style="list-style-type: none"> <li>• A complete set of Guidance in one place is likely to be beneficial for preparers and auditors as a single source of Guidance.</li> <li>• Easier to maintain as it is likely that updates will require more limited changes.</li> </ul>	<ul style="list-style-type: none"> <li>• Embedded text might not provide sufficient flexibility to address NPO-specific issues.</li> <li>• Embedded text may be a less effective in providing simple, comprehensive guidance for NPOs.</li> <li>• May limit the amount of NPO specific examples and still be easy to use.</li> <li>• Limited update flexibility as the Guidance will need to be updated at the same times as updates to the <i>IFRS for SMEs</i> Standard.</li> </ul>
Option 3 – Stand-alone Guidance	<ul style="list-style-type: none"> <li>• A complete set of Guidance in one place is likely to be beneficial for preparers and auditors as a single source of Guidance.</li> <li>• Stand-alone Guidance can be written purely for the NPO context and provide extensive NPO-specific examples.</li> <li>• Stand-alone Guidance could have its own policy for update frequency.</li> </ul>	<ul style="list-style-type: none"> <li>• Stand-alone Guidance may take longer to develop.</li> <li>• It might be more onerous to ensure that the resulting Guidance is cohesive and entirely self-standing.</li> <li>• If the Guidance is not updated to the same timeframes as the <i>IFRS for SMEs</i> standard it could be less attractive to be adopted by jurisdictions who use other IFRS standards.</li> </ul>

- 2.10 Discussions will need to take place with the IFRS Foundation about the use of the *IFRS for SMEs* Standard in the context of any of these options. Having the views of the TAG will help shape these discussions.
- 2.11 While we do not yet have feedback from the Consultation Paper, now is a good time to consider the format of the Guidance, so that a lead approach is established.

**Question 1: In the context of the proposed model are these the options that should be considered?**

**Question 2: What are the TAG's views on the advantages and disadvantages set out?**

February 2021