

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGED04-03
01 December 2021 – Online

Proposed response to the Sector for publication

Summary	The IFR4NPO Secretariat will publish a formal response to the Sector to show how it proposes to respond to the substantive points raised to the matters for comment in the Consultation Paper.
Purpose/Objective of the paper	To provide TAG members with the proposed content of a response to the consultation for publication to stakeholders to show how the Secretariat proposes to respond to the substantive points raised by respondents to the matters for comment in the Consultation Paper. The actual format of the response to the Sector is to be finalised but is likely to be more high-level and visual.
Other supporting items	<i>Annex: Detail to Support the Proposed Response to the Sector</i>
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Actions for this meeting	Provide high level comments on the proposed approach to responding to the Sector, and forward any detailed drafting suggestions to the Secretariat outside the meeting.

Technical Advisory Group

Proposed response to the Sector

1. Background

- 1.1 The IFR4NPO Consultation Paper was launched in January 2021 and gave NPOs and their stakeholders the opportunity, for the first time, to contribute to the development of international financial reporting for the sector.
- 1.2 The publication of the Consultation Paper was the first step in developing internationally applicable financial reporting guidance for NPOs. It provided the first opportunity for those interested in or affected by NPO financial reporting to become acquainted with what the Guidance is proposed to cover and how it will be developed.
- 1.3 The Consultation Paper has generated discussion and comment through both formal responses and also through outreach activities undertaken by the IFR4NPO Secretariat. As part of the ongoing dialogue with the sector, a formal response is being developed to provide the sector with an overview of the submissions received to Part 1 and Part 2 of the Consultation Paper and how the Secretariat proposes to take these into consideration when shaping the development of the Guidance as the project moves to the Exposure Draft stage.
- 1.4 Typically the Secretariat's analysis of the consultation responses is brought back to a standard development committee to build any considerations into future drafts of standards or guidance. You were previously provided with a full analysis of Part 1 which we are now factoring into the development of the Guidance. You will also be considering today the responses to the 'Overview' section of Part 2 of the Consultation Paper. All other analysis of Part 2 topics will be presented alongside proposed drafting of content for the Guidance.
- 1.5 Whilst it is not typical of international accounting bodies to publish a response to a consultation paper, in this case it is considered highly desirable as a means to continue to engage those that took part in the consultation process. With this in mind the response paper will be designed to engage with stakeholders and focus on 'We asked', 'You said', 'We are going to...'
- 1.6 Annex A provides the detailed content proposed by the Secretariat to cover the responses received to Part 1 and Specific Matter for Comment 0 of Part 2.

- 1.7 The actual format of the response to the sector is yet to be determined, but as noted, it is likely to be more visual and high-level than the Consultation Paper and include both a document and explainer videos.

2. Part 1: Summary of proposed way forward for the Exposure Draft

- 2.1 Part 1 of the Consultation Paper was aimed at a broad audience. It discussed the NPO financial reporting landscape and considered this in the context of the project objectives. On the basis of the responses received to the General Matters for Comment in Part 1, the IFR4NPO Secretariat's high level proposed response to the sector as the project moves to the Exposure Draft stage is as follows.
 - 2.1.1 The IFR4NPO Secretariat will continue with the broad characteristics approach to describing NPOs that the Guidance is expected to primarily benefit. The broad characteristics will be amended based on respondent feedback to ensure the approach achieves its objectives and to provide additional clarity on applicability to jurisdictions.
 - 2.1.2 The IFR4NPO Secretariat will determine who the primary user(s) of NPO GPFRs are and articulate the financial and non-financial information needs of those users specifically with reference to GPFR.
 - 2.1.3 The IFR4NPO Secretariat will continue to develop Guidance that is accrual-based and includes non-financial reporting information, ensuring that it provides for proportionate financial and non-financial information reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.
 - 2.1.4 Given resource and time constraints, the IFR4NPO Secretariat will continue to develop Guidance that is based primarily on existing international financial reporting frameworks so as to harness their respective hierarchies, structures and legitimacies and provide credibility.
 - 2.1.5 The IFR4NPO Secretariat will develop a restricted set of standalone Guidance, utilising the IFRS for SMEs Standard as the foundational framework while drawing on other international and jurisdictional-level frameworks to develop NPO-specific reporting solutions. Development of the Guidance will be guided by a need to ensure proportionate application given constraints in capacity, skills and expertise.

3. Part 2: Identification and selection of NPO-specific financial reporting issues

- 3.1 Part 2 of the Consultation Paper contained an overview which examined how the IFR4NPO Secretariat had identified and selected NPO-specific financial reporting issues, and ten individual issue papers each examining a NPO-specific financial reporting issue.
- 3.2 The responses to the individual issue papers will be analysed on an issue by issue basis over the next two years, with proposals brought forward for each via an Exposure Draft delivered in tranches. The focus of the response to the sector for Part 2 is on the extent to which respondents supported the financial reporting issues prioritised.
- 3.3 TAG will have considered the separate paper TAGED04 -02 on the results of Part 2 of the consultation, which presents the full analysis of the results including the overview section. The responses and the Secretariat's analysis are presented in that paper. The Secretariat has sought TAG's views on:
- the comments on both the long list and the prioritised list of topics,
 - on the treatment of foreign exchange transactions and
 - views on the Secretariat's suggestions for both lists.
- 3.4 For the current version of the response to the Sector the assumption included is that foreign exchange transactions will be added to the short list, as it was not just raised in the consultation responses but was frequently raised at outreach, and that the prioritised list will be reviewed to remove topics. This will be updated following TAG's advice on this issue.

4. Next Steps

- 4.1 The Secretariat will develop the response to the sector with the aim of launching this in February 2022. TAG members will be provided with the final draft outside of meeting.

November 2021

Proposed response to the sector

Introduction

The Consultation Paper was aimed at a broad audience to engage on key points that will help the project team develop the first set of Guidance. It discussed the NPO financial reporting landscape, who are NPOs and who are the users of their financial statements and reports. All of these were considered this in the context of the project objectives to:

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

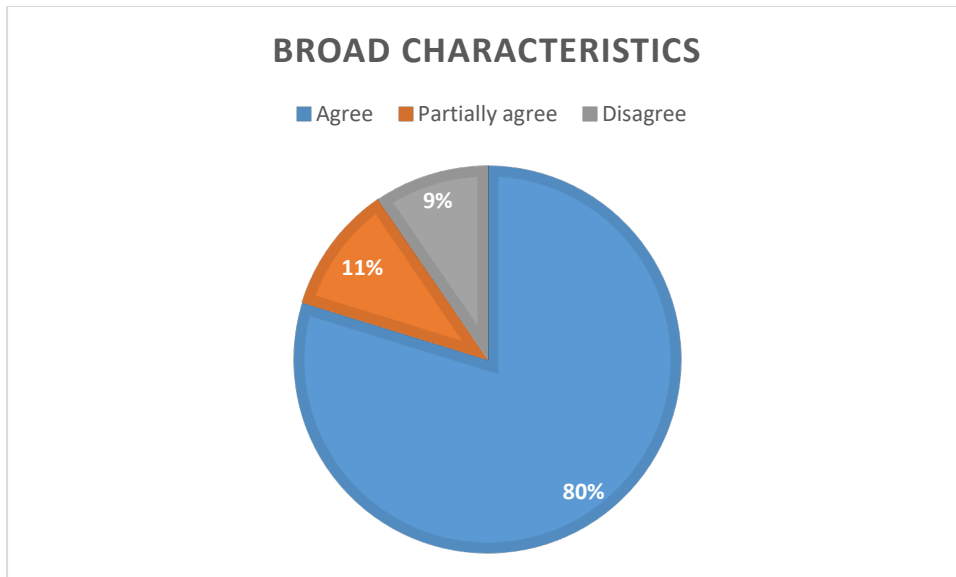
The Consultation Paper also examined which topics should be included in the first set of guidance and included ten individual issue papers each examining a NPO-specific financial reporting issue.

The responses to the individual issue papers will be analysed on an issue by issue basis over the next two years, but we wanted to hear whether the topics being prioritised were the ones that were going to have the greatest impact.

Broad characteristics

We asked you whether you agreed with the broad characteristics proposed for describing a non-profit organisation.

In total 80% of responses were in agreement with the proposals, with a further 11% of responses partially in agreement.



You said that using broad characteristics was a good way of describing non-profit organisations, but there were some differences of opinion as to whether we had proposed the correct characteristics. Concerns were raised as to whether some NPOs would be inadvertently excluded and other entities inadvertently included, and whether some of the characteristics should not be seen as indicators of other characteristics rather than characteristics in their own right. There was strong agreement that an NPO exists for the public benefit, but there was some disagreement as to how this should be defined.

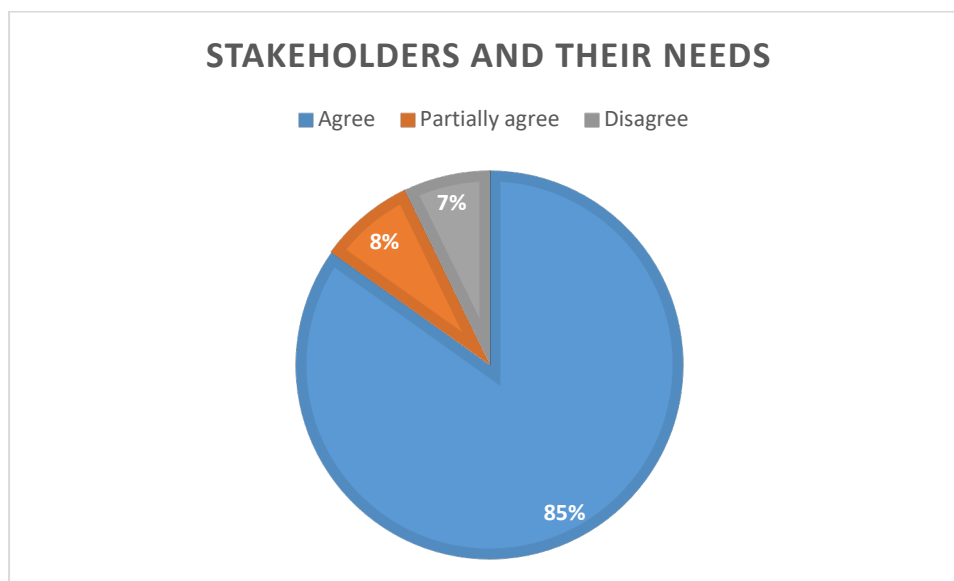
We are going to move to two broad characteristics with NPOs expected to demonstrate both. NPOs will be described as entities that are not controlled by government that have (i) the primary objective of providing goods and/or services for public benefit and (ii) direct profits/surpluses for public benefit. Other indicators will assist in determining if an entity is an NPO where it is not clear if these characteristics have been met. Depending on the goods and services provided, the section of the public that the NPO benefits can be quite limited, but where this is the case the other indicators will need to be checked to determine if the entity can be described as an NPO.

Stakeholders

We asked you whether you agreed that NPOs are accountable to key external stakeholders, that these stakeholders need certain types of information for

accountability and decision-making purposes, and that there are currently issues with accountability and decision-making arrangements for NPOs.

In total 85% of responses were in agreement with the proposals, with a further 8% of responses partially in agreement.



You said that in addition to the external stakeholders noted, recognition should also be given to ‘internal’ stakeholders who are important in the NPO context, such as those charged with governance and volunteers. You also questioned some of the information needs presented, including an apparent absence of focus on outcomes achieved by the NPO and a seemingly narrow view of efficiency and financial health. Finally there was a view that the broad accountability perspective did not allow for a specific focus on NPO financial objectives.

We are going to examine how the needs of ‘internal’ stakeholders can be reflected as we move towards specifically focussing on the objectives on NPO financial reporting and the information needs of users of NPO financial reports. This will include looking at how outcomes, optimising efficiency and areas like risk, long-term strategy and plans, and sustainability can be reflected in non-financial information reporting.

Accrual based financial reporting

We asked you about the challenges with Guidance that was accrual-based.

You said that for NPOs with less complex financial reporting needs there would be limited benefits from accrual-based Guidance. This was because a cash-basis was adequate for their transactions and stakeholders would not understand accrual-based reports. You also noted that a lack of resources, capacity and expertise would make implementing accrual accounting difficult in many NPOs, and that users like donors and regulators would still want cash-reports.

We are going to ensure that the accrual-based Guidance provides for proportionate financial reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions. This can support a reduction in reporting burdens on NPOs, as greater consistency in requirements will enable stakeholders like donors to make greater use of general purpose financial reports.

Non-financial information reporting

We asked you about the challenges in using Guidance that included the reporting of non-financial information.

You said that it was important to include non-financial information reporting in the Guidance but that scope would be a key challenge given the diversity of NPOs, the different international initiatives ongoing in this area, and the need to balance principles with prescription. You also noted the difficulties that NPOs would have in collecting, verifying and reporting relevant data, and ensuring that reporting was fair and balanced.

We are going to ensure that as non-financial information reporting requirements are developed for inclusion within the Guidance, they reflect the diversity of the sector, the capacity and capability of NPOs, and the preference expressed for high-level principles rather than a detailed prescriptive framework.

Using international guidance

We asked you whether you agreed that international frameworks were the best start point for the Guidance, if you supported the criteria used to assess these frameworks, and the assessments that we made.

In total 87% of responses were in agreement with the proposals, with a further 8% of responses partially in agreement.



You said that given the time and resource constraints on the project that this was a pragmatic approach and that the criteria used and assessments were reasonable. There was a view expressed though that an entirely new NPO specific framework or the use of IPSAS may be preferable as it would be best aligned to the needs of users of NPO financial reports.

We are going to develop Guidance that is primarily based on existing international financial reporting frameworks given time and resource constraints. These international frameworks, including IPSAS, and jurisdictional-level frameworks will be used in accordance with the Guidance model.

A model just for NPOs

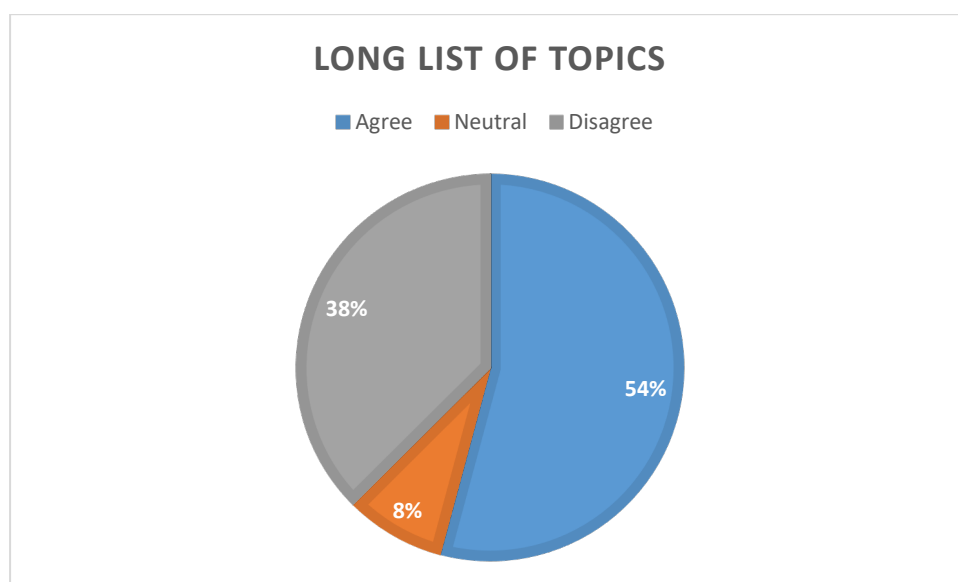
We asked you about our proposed approach to use a model with the *IFRS for SMEs* Standard as the foundational framework, with other international and jurisdictional frameworks used where required. We also asked you about our proposal to initially focus the development of the Guidance on NPOs that could benefit most from an increase in the quality, consistency, transparency, comparability and reliability of financial reporting.

You said that you had some concerns over the use of a framework that had a for-profit conceptual basis and that additional clarity was needed as to how other frameworks would be used. You also noted that there was uncertainty as to what the Guidance would actually comprise, and which NPOs the Guidance was expected to cover.

We are going to develop a set of self-contained Guidance, that directly replaces sections of the *IFRS for SMEs* Standard where it is silent on an NPO-specific issue or does not provide appropriate and/or sufficient guidance. Other international and jurisdictional-level frameworks will be drawn upon to develop these NPO-specific reporting solutions. Development of the of accrual-based reporting Guidance to meet the needs of users will be guided by a need to ensure proportionate application given constraints in capacity, skills and expertise.

Long list of topics

We asked you whether the long list of NPO-specific financial reporting issues was complete. In total 54% of responses were in agreement that it was.



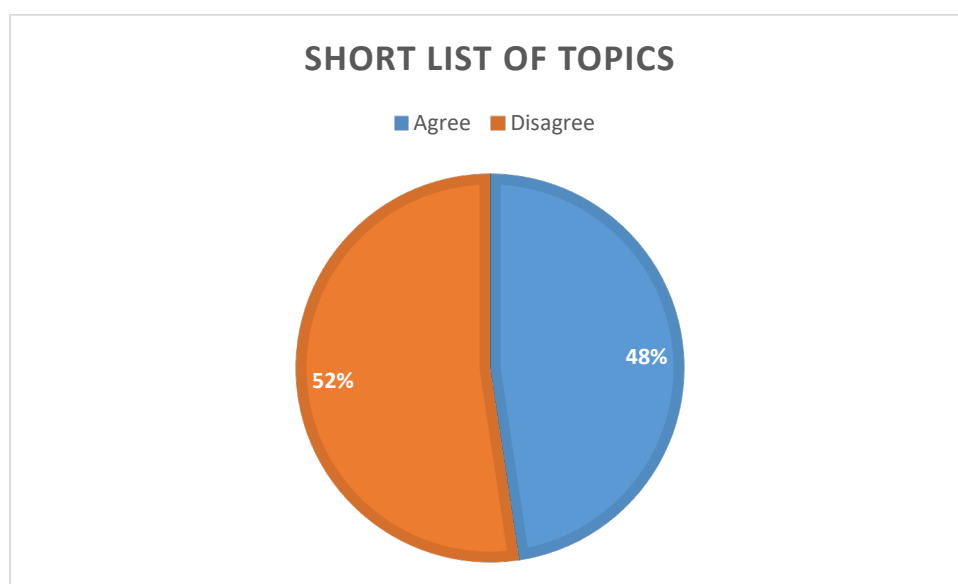
You suggested a number of topics which could be included in the long list of topics, including reserves and restricted funds, social impact reporting, pensions costs and statement of cashflows. A variety of conceptual issues were also noted, and foreign

currency translation was also raised as an issue, particularly with reference to special purpose reports

We are going to consider whether some of these topics could be included in the section of the Guidance that covers concepts and pervasive principles, other parts of the Guidance or whether they should be added to the long list. Foreign currency translation will be included in the short list of topics.

Short list of topics

We asked you whether you agreed with the topics prioritised for the Guidance. In total 48% of responses received were in agreement.



You suggested that a number of topics should be prioritised for the Guidance. This included related party transactions, remuneration reporting, legacy income and foreign exchange transactions. You also said that you were concerned about the amount of Guidance which would be subject to consultation in one go.

We are going to include foreign currency transactions in the prioritised short list of topics and focus on presentation of this information as we have received a significant amount of feedback on this topic in both the consultation and other outreach activities. This means that we will consider removing one of the current prioritised topics from the short list. As there was a lower level of engagement in the consultation with non-financial assets held for social benefit this is being

considered for de-prioritisation. We will also be issuing the consultation papers in phases which will reduce the amount of Guidance being subject to consultation at any one time.

Annex A: Detail behind the proposed response to the Sector

Introduction

The IFR4NPO Consultation Paper was launched in January 2021 and gave non-profit organisations (NPOs) and their stakeholders the opportunity, for the first time, to contribute to the development of international financial reporting for the sector.

The publication of the Consultation Paper was the first step in developing internationally applicable financial reporting guidance for NPOs, providing the first opportunity for those interested in or affected by NPO financial reporting to become acquainted with what the guidance is proposed to cover and how it will be developed.

The Consultation Paper was split into two main Parts. Part 1 addressed broader financial reporting issues, dealing with framework issues relevant to General Purpose Financial Reporting for NPOs. Part 2 addressed the technical accounting considerations of specific issues that had been identified as being of importance to NPOs.

The Consultation Paper has generated discussion and comment through both formal responses and also through outreach activities undertaken by the IFR4NPO Secretariat. These formal responses and the broader feedback obtained through outreach activities have been analysed by the IFR4NPO Secretariat and will now be used to help shape the development of the guidance as the project moves to the Exposure Draft stage.

This document provides the detail behind the proposed response to the Sector, with an overview of the formal responses received to Part 1 and Part 2 of the Consultation Paper.

For Part 1 it highlights on a Chapter by Chapter basis the extent to which the proposals included in the Consultation Paper were supported, the key themes emerging from the responses, and how the IFR4NPO Secretariat intends to respond to the issues raised by respondents as the Exposure Draft for this section of the guidance is developed in early 2022.

For Part 2 it highlights the extent to which the different alternative financial reporting treatments were supported by respondents. Work on further analysing the responses received on the accounting issues in Part 2 will take on an issue by issue basis ahead of the release of Exposure Drafts for each Issue.

Part 1 Responses

Part 1 of the Consultation Paper was aimed at a broad audience. It discussed the NPO financial reporting landscape and considered this in the context of the project objectives which are:

Objective 1: To improve the quality, transparency and credibility of NPO financial reports.

Objective 2: To support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

Objective 3: To address specific NPO issues, which will promote the comparability of NPO financial reports.

Part 1 contained five Chapters. These were:

Chapter 1: What are Non-profit organisations?

Chapter 2: Who are NPO Stakeholders and what are their needs?

Chapter 3: What are the essential factors of NPO financial reporting guidance?

Chapter 4: How far can existing international financial reporting frameworks assist NPOs?

Chapter 5: Proposed way forward.

For each Chapter this document provides:

- an overview of the Chapter and the General Matters for Comment (GMC) that respondents were asked to respond to;
- statistics on the responses received to the GMC(s) for that Chapter; and
- the IFR4NPO Secretariat's view on the responses received and the proposed way forward for the Exposure Draft.

The high level summary of how the IFR4NPO Secretariat proposes to move forward at the Exposure Draft stage following analysis of the responses received to Part 1 is noted below.

Part 1: Summary of proposed way forward for the Exposure Draft

The IFR4NPO Secretariat will continue with the broad characteristics approach to describing NPOs that the Guidance is expected to primarily benefit. The broad characteristics will be amended based on respondent feedback to ensure the approach achieves its objectives and to provide additional clarity on applicability to jurisdictions.

The IFR4NPO Secretariat will determine who the primary user(s) of NPO GPFs are and articulate the financial and non-financial information needs of those users specifically with reference to GPF.

The IFR4NPO Secretariat will continue to develop Guidance that is accrual-based and includes non-financial reporting information, ensuring that it provides for proportionate financial and non-financial information reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.

Given resource and time constraints, the IFR4NPO Secretariat will continue to develop Guidance that is based primarily on existing international financial reporting frameworks so as to harness their respective hierarchies, structures and legitimacies and provide credibility.

The IFR4NPO Secretariat will develop a restricted set of standalone Guidance, utilising the IFRS for SMEs Standard as the foundational framework while drawing on other international and jurisdictional-level frameworks to develop NPO-specific reporting solutions. Development of the Guidance will be guided by a need to ensure proportionate application given constraints in capacity, skills and expertise.

Statistics on respondents to Part 1

The table below provides a high level overview of the responses to Part 1 General Matters for Comment and the extent to which the responses agreed with the core proposals.

In total there were 89 responses received to the Part 1 of the Consultation Paper, but not all respondents provided a response to each General Matter for Comment.

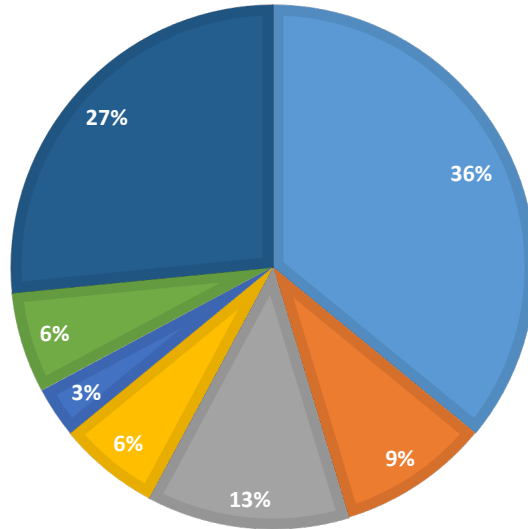
Question	General Matter for Comment	Responses	% Agreed
1a	Broad characteristics of NPOs	84	80%
2a	Definition of stakeholder groups	85	82%
2b	Information needed by stakeholders	85	87%
2c	Current issues with stakeholder information for accountability and decision-making	81	85%
3a	Accrual based guidance	72	N/A
3b	Inclusion of non-financial reporting	60	N/A
4a	International frameworks as a start point	85	87%
4b	Criteria to assess international frameworks	78	81%
4c	High level assessment of international frameworks	72	86%
5a	Proposed Guidance model	75	N/A

As not all respondents provided information on jurisdiction, it is not possible to provide a definitive summary of the geographical location of respondents. With the information available, however, it is possible to provide the approximate geographical distribution of responses below.



GEOGRAPHICAL DISTRIBUTION OF RESPONSES

■ Africa ■ Asia ■ Europe ■ North America ■ South America ■ Oceania ■ Global



Chapter 1: What are Non-profit organisations?

Overview of Chapter

Chapter 1 of the Consultation Paper looked at what is meant by the term ‘NPOs’ to enable an examination of which organisations’ financial reports might be addressed by the project’s first objective - to improve the quality, transparency and credibility of NPO financial reports.

The Consultation Paper proposed a broad characteristics approach to describing the entities that the IFR4NPO Project Guidance is expected to primarily benefit. NPOs were described as organisations that:

- Deliver services for public benefit and/or
- Direct any profits/surpluses for public benefit and/or
- May have significant voluntary funding and grant income and/or
- Hold and use assets for social purposes.

The aim of this broad description was to enable a project focus on proposals that best meet the needs of the organisations with some or all of these characteristics.

Respondents to the Consultation Paper were asked:

GMC1a – Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not, why not? Which alternative characteristics would you propose, and why?

Statistics on responses received to Chapter 1

GMC1a – Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not, why not? Which alternative characteristics would you propose, and why?	
(a) agree	67 (80%)
(b) partially agree	9 (11%)
(c) disagree	8 (9%)
Total number of responses	84

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

As demonstrated by the statistics on responses received to Chapter 1, there was a high level of support for both the broad characteristics approach and the individual characteristics that were proposed. There were though a number of responses which provided additional commentary on the approach and characteristics, including those where there was only partial agreement or disagreement.

These responses have been analysed by the IFR4NPO Secretariat and can be grouped into two themes:

- (i) Is the broad characteristics approach the correct approach?; and
- (ii) Were the broad characteristics proposed appropriate for describing NPOs?

Is the broad characteristics approach the correct approach?

There were a small number of respondents who did not support the broad characteristics approach proposed in the Consultation Paper. They instead argued for a narrower focus, with only those entities having a specific legal status as an NPO, or those entities that solely operated on the basis of donations, being within scope for the Guidance.

While understanding the arguments raised by these respondents, the view of the IFR4NPO Secretariat is that this narrow approach would not support the achievement of the project's first objective.

Not all jurisdictions have a relevant legal framework that would permit a narrow legal status approach. For those that do, entities that are deemed to be NPOs in one jurisdiction's legal code may not be deemed to be an NPO in another jurisdiction despite them being structured in the same way and carrying out the same activities.

Furthermore, were the focus of the project to be only on those entities operating solely on the basis of donations, then a very large number of entities that would benefit from the Guidance would be scoped out, thus significantly reducing the potential benefits of the project.

As such the IFR4NPO Secretariat intends to move forwards with the broad characteristics approach for the Exposure Draft stage. Given the diversity of entities and jurisdiction-level legal frameworks in which they operate, a narrow description or definition of NPOs, as proposed by some respondents, would exclude many organisations that could benefit from the Guidance and is not supported.

Were the broad characteristics proposed appropriate for describing NPOs?

Some respondents while supporting the broad characteristics approach did provide arguments that the characteristics proposed might not be appropriate for describing NPOs. In particular, several respondents indicated that the characteristics put forward in the Consultation Paper could have unintended consequences with respect to the scope of the entities covered by the Guidance. This was partly due to the presentation of the characteristics as “and/or” statements, but also due to how each individual characteristic might be applied and uncertainty as to what key terms included in the characteristics meant.

Some respondents noted that the characteristics might call for the inclusion in scope of a wide range of entities that they did not expect to be an appropriate focus for the Guidance. These included:

- government entities that should follow public sector accounting standards;
- private sector entities like hospitals that provide services for the public benefit or use assets to fulfil a social purpose but which would be expected to follow private sector accounting standards; and
- certain types of organisations providing benefit only to a small and privileged membership that could be deemed too exclusive to be viewed as a non-profit organisation.

As well as scoping in entities that they did not believe were an appropriate focus for the Guidance, some respondents also noted that the broad characteristics

currently proposed might exclude entities that they believed should be within scope. Examples included:

- entities providing goods for public benefit and not services,
- grant-giving bodies providing funding to other NPOs, and
- entities that work to preserve and enhance the environment, heritage assets, or other areas that might not immediately be deemed to be for a “social” purpose.

In addition to raising the possibility of unintended consequences with respect to scope, some respondents also questioned whether all of the broad characteristics were characteristics in their own right, or should more appropriately be seen as indicators of other characteristics or consequential to activities driven by them.

The IFR4NPO Secretariat has examined these responses closely and agrees that there is a need to look again at the broad characteristics proposed. This is necessary to ensure that the approach achieves its objectives while also providing additional clarity to jurisdictions who will ultimately determine which entities will apply the Guidance.

It is expected that this will involve:

- examining key terms that have caused some confusion among respondents such as public benefit;
- amending the broad characteristics to take into consideration issues raised including ensuring the inclusion of entities that provide goods or grant financing;
- potentially changing the number of broad characteristics, requiring NPOs to meet all the characteristics, and examining how to provide additional guidance through indicators and other explanatory text in areas like the receipt and provision of funding, rights to financial returns and transfer of residual net assets upon dissolution, and the purpose and use of assets.

These potential changes will be discussed with the project’s Practitioner Advisory Group and Technical Advisory Group. They will then be brought into the Exposure Draft, forming the basis of the section of the Guidance that provides an overview of the intended scope of the Guidance and a description of NPOs.

Chapter 1: Summary of proposed way forward for the Exposure Draft

The IFR4NPO Secretariat will continue with the broad characteristics approach to describing NPOs that the Guidance is expected to primarily benefit. The broad characteristics will be amended based on respondent feedback to ensure the approach achieves its objectives and to provide additional clarity on applicability to jurisdictions.

Chapter 2: NPO stakeholders and their needs

Overview of Chapter

Chapter 2 of the Consultation Paper examined NPO stakeholders and their accountability and decision-making requirements in order to assist in the achievement of Objective 2 of the project – to support the provision of NPO financial information that is useful for decision making and accountability, balancing the needs of preparers and users.

The Chapter proposed that external stakeholders need to know that an NPO is achieving its objectives, in a way that maximises economy, efficiency and effectiveness in the use of resources, while complying with restrictions and regulations, and in the context of its longer-term financial health.

The Chapter also noted that differences in reporting requirements at a jurisdictional-level mean that NPOs have to report using different standards and formats by jurisdiction. This has been a factor in donors imposing their own financial reporting requirements on NPOs. This has led to a significant additional reporting burden for NPOs as they are required to produce different financial reports.

Respondents to the Consultation Paper were asked:

GMC2.a - Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not, why not? What alternative groups would you propose NPOs can be accountable to, and why?

GMC2.b - Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness, compliance with restrictions and regulations, and longer-term financial health, for accountability and decision-making purposes? If not, why not? What alternative areas would you propose and why?

GMC2.c - Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not, why not? Are there any other issues with current accountability and decision making

arrangements, particularly financial accountability to donors, that you would wish to highlight?

Statistics on responses received to Chapter 2

GMC2.a - Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not, why not? What alternative groups would you propose NPOs can be accountable to, and why?	
(a) agree	70 (82%)
(b) partially agree	12 (14%)
(c) disagree	3 (4%)
Total number of responses	85

GMC2.b - Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness, compliance with restrictions and regulations, and longer-term financial health, for accountability and decision-making purposes? If not, why not? What alternative areas would you propose and why?	
(a) agree	74 (87%)
(b) partially agree	5 (6%)
(c) disagree	6 (7%)
Total number of responses	85

GMC2.c - Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not, why not? Are there any other issues with current accountability and decision making arrangements, particularly financial accountability to donors, that you would wish to highlight?	
(a) agree	69 (85%)
(b) partially agree	3 (4%)
(c) disagree	9 (11%)
Total number of responses	81

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

As highlighted from the statistics on responses, there was a high level of agreement across all three of these GMCs from respondents. There were though also some consistent issues raised by a number of respondents. These can be grouped into the following themes:

- (i) Have key stakeholders been missed?
- (ii) Have information needs been correctly articulated?
- (iii) Do we need to articulate information needs from the perspective of financial reporting rather than more broadly?
- (iv) Have continued requirements for other forms of reporting been underplayed?

Have key stakeholders been missed?

A number of respondents indicated that the focus on external stakeholders meant that recognition had not been given to 'internal' stakeholders who are also important in the NPO context. Examples provided by these respondents of internal stakeholders included those charged with governance, staff, volunteers, and members.

Given the broad accountability perspective of the Chapter and the nature of many NPOs, the IFR4NPO Secretariat agrees that some stakeholders who may traditionally be seen as 'internal' in nature should be recognised. This is particularly the case with respect to non-executive governing boards and similar bodies who are charged with fulfilling oversight functions but may not be in a position to require information to be prepared to meet their specific needs.

This will be further examined as the Exposure Draft is developed and if deemed primary users these stakeholders will be included within the section of the Guidance covering Concepts and Pervasive Principles.

Have information needs been correctly articulated?

Several respondents also questioned the information needs that were presented in the Chapter and provided arguments for some that had not been included. This related in particular to an apparent absence of the outcomes achieved by the NPO, the view that stakeholders needed to understand whether

an NPO was maximising economy, efficiency and effectiveness in the use of resources, and the narrow focus on the long-term financial health.

The IFR4NPO Secretariat notes that “Outcomes” had been intended to be partly covered under “achievement of objectives” but the number of respondents who raised this as an issue would indicate that from their perspective this was not adequately covered in the Consultation Paper and needs to be explicitly drawn out.

With respect to economy, efficiency and effectiveness, while most respondents did agree that ‘value for money’ considerations did have at least some relevance to NPOs, a term such as optimisation was preferred to maximisation to better reflect how resources are used to support activities and achieve outcomes. There was in particular a concern that efficiency was a more nuanced concept in the NPO context than had been articulated in the Consultation Paper and that a narrow view of efficiency was not appropriate.

The focus on long-term financial sustainability was also raised by several respondents who questioned whether stakeholders would also not expect to see areas such as risk, long-term strategy and plans, and environmental sustainability covered. These respondents supported a broader sustainability perspective beyond that presented in the Consultation Paper.

In addition to the specific information needs presented, a number of respondents also raised the difficulty in defining and evaluating these areas with performance metrics that would permit meaningful and realistic comparisons of financial and non-financial performance. This was deemed particularly difficult in the context of GPFs which may be subject to audit.

As noted below, as the project moves to the Exposure Draft stage the IFR4NPO Secretariat will be undertaking further work to determine the financial and non-financial information needs of users. The responses highlighted above will assist in guiding this work.

Do we need to articulate information needs from the perspective of financial reporting rather than more broadly?

A number of the respondents who provided suggestions to improve the information needs presented also expressed the viewpoint that the focus of the

Chapter was not sufficiently tied to financial reporting. Their view was that rather than articulate accountability needs from a broad perspective it should be focussed specifically from the perspective of GPFR.

For these respondents, the broad perspective presented did not allow for a specific focus on the objectives of financial reporting and financial statements. For some this meant that there was insufficient emphasis placed on the role that financial statements play in demonstrating accountability and stewardship, with instead too much emphasis on decision-making usefulness. For them this had led for example to a lack of acknowledgement that areas such as the use of restricted funds were crucial in demonstrating accountability for many NPOs.

It was also argued that the broad perspective meant that the primary user(s) of NPO financial statements which would be important for the development of the Guidance had not been well articulated. Of the key stakeholder groups highlighted, some respondents argued that they would typically and appropriately obtain information by other means rather than through GPFR. For these respondents it was necessary to determine those for whom information would be most appropriately provided to through financial statements.

The IFR4NPO Secretariat agrees that as the project moves to the Exposure Draft stage it will be necessary to determine who the primary user(s) of NPO GPFRs are and to articulate the financial and non-financial information needs of those users specifically with reference to GPFR. This will be included within the section of the Guidance covering Concepts and Pervasive Principles.

Have continued requirements for other forms of reporting been underplayed?

There were also some respondents who felt that the Consultation Paper could be clearer in noting that whilst GPFR undoubtedly did play a key role in relation to accountability and decision-making, they were not a panacea and NPOs would continue to be required to produce other sources of information by users such as donors and regulators.

These respondents accepted that whilst the Guidance did have the potential to lead to more consistent presentation in how the financial information requested by donors is measured and reported, it wouldn't remove the requirement for it to be prepared and reported. Donors and other funders would still be able to

require the production of special purpose financial reports. Regulatory bodies too would also continue to request information from NPOs outside of any GPFR reporting processes supported by the Guidance.

Given this continued requirement for other forms of reporting from donors, funders and regulatory bodies, these respondents argued that the particular information needs of these stakeholders should be understood and the impact of the Guidance on the current reporting burden not be overstated.

The IFR4NPO Secretariat agrees that other forms of reporting will still be required, with donors, funders and regulators having the power to request special purpose financial reports from NPOs.

The IFR4NPO Secretariat would note that the IFR4NPO project and Guidance can, however, support a reduction in the reporting burdens on NPOs, as greater consistency in requirements at the level of GPFRs will enable these stakeholders to make greater use of these financial reports. The introduction of common financial reporting standards also has the potential to reduce diversity in different reporting requirements if adopted by donors for any continued special purpose financial reports requested from NPOs.

The IFR4NPO Secretariat does agree with the views of respondents that understanding the information needs of donors, funders and regulatory bodies is important to ensuring that financial reporting standards in the Guidance will assist in achieving this.

Chapter 2: Summary of proposed way forward for the Exposure Draft

The IFR4NPO Secretariat will determine who the primary user(s) of NPO GPFRs are and articulate the financial and non-financial information needs of those users specifically with reference to GPFR.



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Chapter 3: What are the essential factors of NPO financial reporting guidance?

Overview of Chapter

Chapter 3 of the Consultation Paper explained the rationale for two core premises proposed for the development of NPO financial reporting guidance that are essential to meeting stakeholder and user needs and the three Guidance objectives. These were:

- accrual-based accounting; and
- the inclusion of non-financial reporting information

Respondents to the Consultation Paper were asked:

GMC3a - What, if any, do you see as the main challenges with Guidance that is accrual-based?

GMC 3b - What, if any, do you see as the main challenges with Guidance that includes non-financial information reporting?

Statistics on responses received to Chapter 3

As the GMCs for Chapter 3 asked respondents to highlight challenges with Guidance that was accrual-based and included non-financial information reporting, rather than agree or disagree with the proposals, only a high level statistical breakdown of the number of respondents commenting is available.

In total 72 responses were received highlighting challenges with Guidance that was accrual based, and 60 responses received highlighting challenges with Guidance that included non-financial information reporting.

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

The GMCs for Chapter 3 did not ask respondents to agree or disagree with the proposals, but rather to highlight challenges with Guidance that was accrual-

based and included non-financial information reporting. The key themes emerging from the responses were:

- (i) Disagreement with accruals as an accounting basis;
- (ii) Practical issues with the implementation of accrual-based Guidance;
- (iii) Challenge in developing non-financial information reporting Guidance; and
- (iv) Practical challenge for NPOs in producing and reporting non-financial information.

Accrual-based Guidance – disagreement with accruals as an accounting basis

Several respondents raised conceptual challenges to the use of accruals. The most common was that smaller NPOs with less complex financial reporting needs in particular were unlikely to gain any significant benefit from accrual-based Guidance. Reasons noted included their stakeholders having little understanding of accruals and their transactions being simple and adequately accounted for on a cash basis. The ability of users to understand accrual-based financial reports was also raised by other respondents, who indicated that donors in particular were only interested in cash-based utilisation of funding provided to NPOs.

The IFR4NPO Secretariat would note that Consultation Paper did recognise that for many NPOs, cash-based accounting would continue to be appropriate and so the Secretariat is in agreement with these respondents. The challenge that the IFR4NPO Secretariat has always recognised and which is covered in the discussion on responses to Chapter 5 is determining which NPOs this would or should include.

Other respondents indicated that donors and regulators would continue to require cash or modified cash basis reports to understand the utilisation of funding or for tax or other purposes.

As highlighted above the Secretariat recognises that there may continue to be a requirement for other forms of reporting by NPOs, including reporting using a different accounting basis. As noted the Guidance can, however, support a reduction in the reporting burdens on NPOs, as greater consistency in requirements at the level of GPFs will enable stakeholders to make greater use of these financial reports. The introduction of

common financial reporting standard also has the potential to reduce diversity in different reporting requirements if adopted by donors for any continued special purpose financial reports requested from NPOs.

Finally some respondents, did raise specific accounting issues with the application of an accrual approach in the NPO context. This included challenges such as the provision of funding for capital expenditure and a mismatch between income recognition and expenditure leading to an apparent surplus, and the recognition of income from grant and contract funding.

The IFR4NPO Secretariat's view is that while these specific accounting issues are valid concerns, none of the issues raised are so fundamental as to make an accruals-basis for the Guidance as a whole inappropriate in the NPO context.

Accrual-based Guidance – practical issues with implementation

A wide range of responses were received highlighting the practical challenge of implementing accrual-based Guidance.

The most common response from respondents was in relation to the capacity and capability of NPOs and their staff to move to and maintain an accruals-based accounting system. It was noted that many NPOs rely on volunteer and/or non-specialist staff who would not have the skills and technical expertise required to operate finance systems on an accrual basis, or understand the accrual based financial reports that they produced.

Respondents also commented that access to, and the affordability of, the education and training needed to apply accrual accounting would be challenging in many jurisdictions.

A number of respondents further noted that the resources needed to introduce the computer software and hardware that would be required for accrual accounting would be scarce for many NPOs. And the additional costs associated with compliance and audit of accrual-based financial reports would pose additional burdens.

The IFR4NPO Secretariat notes the Consultation Paper did recognise many of these disadvantages associated with the accrual basis. The feedback

from respondents does, however, add additional weight to the need to ensure that the Guidance provides for proportionate financial reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.

Non-financial information reporting – challenge in developing Guidance

Although the GMC was primarily focussed on understanding challenges in including non-financial reporting principles within the Guidance, there was recognition from many respondents that it was important to include non-financial information reporting within the Guidance. These respondents agreed that its inclusion would be beneficial in enabling NPO financial reports to meet the broader needs and expectations of users. Several challenges to developing non-financial information reporting principles were though raised by respondents.

Many highlighted that scope would be a key challenge, with a need to think carefully about what to include to ensure comparability and consistency between NPOs whilst also being relevant and applicable across such a diverse range of entities.

In this regard one respondent indicated that as there are a number of international initiatives ongoing to develop international non-financial reporting frameworks, timing was a critical consideration. They felt that the Guidance should leverage from these activities and that while these frameworks were still being developed it would be useful to focus on high-level principles initially before developing detailed Guidance from them.

Given the diversity of NPOs and their activities, other respondents also indicated that a careful balance would need to be struck between prescription and flexibility, with NPOs having the freedom to report in a way that best met their user's needs while ensuring consistency in the application of high level-principles.

A respondent also highlighted that the reliability and integrity of data that would potentially be utilised for non-financial reporting requirements needed to be considered, including the extent to which it was auditable or subject to other forms of assurance. In relation to some NPOs, individual respondents also

questioned the extent to which non-financial information reporting would build on or integrate with existing NPO performance reporting to donors and other stakeholders.

The IFR4NPO Secretariat notes the support for the inclusion of non-financial information reporting and recognises the challenges indicated by respondents. Respondents to Part 1 commenting in this area generally favoured an initial focus on high-level principles for non-financial reporting rather than the development of a detailed prescriptive framework.

Non-financial information reporting is also included in Part 2 of the Consultation Paper under Issue 10: Narrative Reporting, and as will be highlighted below, respondents to this Issue were split between basing guidance on existing approaches developed by the IASB/IPSASB and the IIRC framework. These responses will be further analysed and will help guide the development of the approach to non-financial information reporting.

Non-financial information reporting – practical challenge for NPOs in producing and reporting

As with the responses that indicated challenges related to Guidance that was accrual-based, a number of more practical issues for NPOs in producing and reporting non-financial information were raised by a diverse group of respondents.

Many of these issues were similar to those raised in relation to accrual-based reporting, and related to the capacity and capability of NPOs to collect, verify and report relevant data. Respondents noted, however, that it can be significantly more difficult to measure than financial information. This raises issues in relation to cost, skills and technical expertise that will need to be taken into consideration as Guidance is developed, particularly if entities may also be transitioning to accrual-based accounting at the same time. For this reason one NPO respondent noted that it may be beneficial if non-financial information reporting's inclusion in the Guidance were delayed until a later stage of the project.

In addition, several respondents also questioned how the Guidance would deal with the issue of subjectivity and ensure that NPOs were able to report in a way that was fair and balanced. This links to the challenge noted above about the

extent to which non-financial information is auditable or subject to other forms of assurance. It also raises questions as to whether the inclusion of non-financial information reporting could, however, detract from improvements to financial information reporting.

The IFR4NPO Secretariat notes and understands the practical challenges highlighted by respondents. As non-financial information reporting proposals are further developed it will ensure that the Guidance includes proportionate non- financial reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.

Chapter 3: Summary of proposed way forward for the Exposure Draft

The IFR4NPO Secretariat will continue to develop Guidance that is accrual-based and includes non-financial reporting information, ensuring that it provides for proportionate financial and non-financial information reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.

Chapter 4: How far can existing international financial reporting frameworks assist NPOs?

Overview of Chapter

Chapter 4 of the Consultation Paper highlighted that limitations on time and resource available to the IFR4NPO project means that the Guidance must be based on existing financial reporting frameworks. It developed an argument for why the Guidance needs to be based primarily on an international rather than jurisdictional-level framework, examining the extent to which the three existing international frameworks would allow the project objectives to be met, and therefore whether they might be suitable as a basis for the Guidance. A high-level assessment was also provided to consider the extent to which NPO-specific reporting issues are already addressed by the frameworks.

Respondents to the Consultation Paper were asked:

GMC 4a Do you agree that international frameworks are the best start point for the guidance?

GMC 4b Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks?

GMC 4c Do you agree with the high level assessment of the existing international frameworks against these criteria?

Statistics on responses received to Chapter 4

GMC4.a - Do you agree that international frameworks are the best start point for the guidance?	
(a) agree	74 (87%)
(b) partially agree	6 (7%)
(c) disagree	4 (5%)
(d) no comment	1 (1%)
Total number of responses	85

GMC4.b - Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks?

(a) agree	63 (81%)
(b) partially agree	10 (12%)
(c) disagree	2 (3%)
(d) no comment	3 (4%)
Total number of responses	78

GMC4.c - Do you agree with the high level assessment of the existing international frameworks against these criteria?	
(a) agree	62 (86%)
(b) partially agree	3 (4%)
(c) disagree	5 (7%)
(d) no comment	2 (3%)
Total number of responses	72

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

As highlighted from the statistics on responses, there was a high level of agreement across all three of these GMCs from respondents. There were though also some consistent issues raised by a number of respondents. These responses can be grouped into the following themes:

- (i) Is the use of existing international frameworks supported?
- (ii) Were the right criteria used to assess the international frameworks?
- (iii) Was the high level assessment of the frameworks against the criteria supported?

Is the use of existing international frameworks supported?

Most respondents agreed that the use of existing international frameworks was a pragmatic approach given the time and resource constraints on the project, and that there were significant advantages in being able to leverage the work that had been undertaken to develop and maintain these frameworks. Examples provided by respondents included the extensive consultation and best practices associated with these frameworks, the potential for familiarity amongst

preparers and users, and also the existence of extensive educational and support material.

One respondent questioned whether consideration had been given to utilising jurisdictional-level frameworks as the start point. **Although addressed in the Consultation Paper, the IFR4NPO Secretariat would reiterate that this was considered but deemed not to be the best approach because jurisdictional-level frameworks are not developed with international application in mind and are subject to jurisdictional-level rather than international due process.**

Another respondent also questioned the extent to which Guidance based on international frameworks would be acceptable to disadvantaged countries and regions who have limited input into their formulation. **The IFR4NPO Secretariat, while not commenting on the extent to which disadvantaged regions are able to input into the formulation of existing international frameworks, would note that this adds further weight to the need to ensure effective global outreach so that the development of IFR4NPO remains as inclusive as possible.**

There were a limited number of respondents, however, who disagreed with the use of existing frameworks, arguing that an entirely new framework for NPOs was required starting with the development of an NPO conceptual framework.

The IFR4NPO Secretariat reiterates that the project does not have sufficient resources to develop a new conceptual framework and complete suite of NPO financial reporting standards from scratch. There are also several examples from across the globe of jurisdictions that have adapted existing international frameworks to develop NPO financial reporting frameworks that demonstrate that an adaptive approach can succeed.

It is recognised though that IFRS and IPSAS have developed financial reporting standards for for-profit organisations and government entities to meet their own sector context and the needs of their primary users of financial statements. **As noted in the Chapter 2 response, the IFR4NPO Secretariat agrees that as the project moves to the Exposure Draft stage it will be necessary to determine who the primary users of NPO GPFs are and articulate the financial and non-financial information needs of these primary users**

specifically with reference to GPFR. This will assist further in identifying NPO specific issues and guiding standard development.

Were the right criteria used to assess the international frameworks?

A significant majority of respondents agreed with the criteria used to assess the existing international frameworks, with only a small number of respondents suggesting different or additional criteria.

One respondent noted that there was a need for clarity on the interaction between the criteria and the project Guidance objectives, and that the assessment of a framework's ease of use should more clearly evaluate its impact on NPO financial reports and whether this information is proportionate to the needs of both preparers and users. This was supported by another respondent, who noted that there was a need to ensure that the frameworks would provide financial reports suitable for their primary users.

Other responses suggesting modifications to the assessment criteria included a suggestion of an additional criteria that takes into account the alignment of the framework with the four characteristics of an NPO, and a criteria that would assess the ease or difficulty of convincing stakeholders to adopt the resulting standard.

Again, however, there were some comments on issues related to the lack of a specific NPO conceptual framework, including specific statements about who the users are and what user needs will be met through financial reporting that is prepared using those standards, that would underpin the Guidance. For some respondents this meant that it was inappropriate to use existing international frameworks and a new framework had to be developed. For others who highlighted the broad discussion on accountability and decision-making in Chapter 2, this meant that IPSAS was better aligned than IFRS or IFRS for SMEs.

As already noted the IFR4NPO Secretariat does not have sufficient resources to develop a new conceptual framework and complete suite of NPO financial reporting standards from scratch so use must be made of existing international frameworks. The issue as to whether IPSAS is better aligned to the accountability and decision-making needs of users of NPO GPFRs is covered further in the discussion of Chapter 5 responses.

As noted in response to other Chapters, the IFR4NPO Secretariat will also determine the primary user(s) of NPO GPFRs are, articulate the financial and non-financial information needs of those users specifically with reference to GPFR, and ensure that the Guidance includes proportionate reporting requirements that can practically be applied by a wide range of NPOs in many jurisdictions.

Was the high level assessment of the frameworks against the criteria supported?

Again a significant majority of respondents agreed with the high level assessment of the frameworks against the criteria, although some questioned individual ratings that had been provided in certain areas and one respondent noted that all ratings should be red, as the frameworks did not provide standards tailored to NPOs.

With relation to the individual ratings, this included whether the red assessment on accounting for non-financial assets applied to IFRS and IFRS for SMEs should instead be amber. A respondent also questioned the extent to which regular updates to IFRS and IPSAS are really more demanding than the less frequent but potentially more significant changes to IFRS for SMEs approximately every five years.

Further support was provided in the responses to the use of IPSAS. One respondent questioned whether given that the focus of the Guidance would initially be on more complex NPOs, IPSAS wouldn't be the more logical foundational framework. They argued that IPSAS would be more closely related to the underlying nature and purpose of the organisations and users of financial statements that the Guidance was being developed for. In a similar vein, comments were also received on the need to focus on who the primary users of NPO financial statements will be when assessing the frameworks and not the broad range of stakeholders identified in Chapter 2.

Finally one respondent indicated that in their view adapting IPSAS or IFRS was a flawed solution in the longer term, but that in the interests of creating the foundations for the next stage of the project offered a promising start.

The IFR4NPO Secretariat would note the high level of support provided by respondents to the assessment of the frameworks against the criteria, while recognising the alternative views expressed by some respondents.

The issue as to whether IPSAS is better aligned to the accountability and decision-making needs of users of NPO GPFRs is covered further in the discussion of Chapter 5 responses below.

Chapter 4: Summary of proposed way forward for the Exposure Draft

Given resource and time constraints, the IFR4NPO Secretariat will continue to develop Guidance that is based primarily on existing international financial reporting frameworks so as to harness their respective hierarchies, structures and legitimacies and provide credibility.

Chapter 5: Proposed way forward

Overview of Chapter

The purpose of Chapter 5 was to propose a way forward to meet all the project Guidance objectives. A model was proposed with IFRS for SMEs as the foundational framework with further guidance drawn from full IFRS Standards, IPSAS, and jurisdictional-level standards where IFRS for SMEs is silent or does not provide appropriate and/or sufficient guidance.

It was also proposed that development of the Guidance initially focus on those NPOs that have more complex operations and transactions that they need to account for and/or reporting requirements to funders and jurisdictions where current arrangements do not provide adequate solutions.

Respondents to the Consultation Paper were asked:

GMC 5a - What do you see as the main challenges, if any, with the proposed Guidance model and the use of the IFRS for SMEs Standard as the foundational framework? What, if any, alternative model and/or foundational framework do you suggest would be more suitable and why?

Statistics on responses received to Chapter 5

As the GMC for Chapter 5 asked respondents to highlight challenges with the proposed Guidance model, rather than agree or disagree with the proposals, only a high level statistical breakdown of the number of respondents commenting is available.

In total 75 responses were received from respondents.

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

While there was a general understanding of the need for a proportionate and pragmatic solution as proposed in the Consultation Paper, respondents highlighted a number of challenges with the proposed Guidance model. These can be grouped under the following key themes:

- (i) Conceptual issues related to the Guidance model and foundational framework;
- (ii) What will the Guidance comprise and which NPOs will be covered by it?; and
- (iii) Practical consideration related to the adoption of the Guidance.

Conceptual issues related to the Guidance model and foundational framework

Several respondents raised conceptual issues related to the proposed Guidance model and the use of IFRS for SMEs as the foundational framework, including questioning whether the use of IFRS for SMEs as the foundational framework was appropriate given that it has a for-profit conceptual basis.

Absent a specific NPO conceptual framework, these respondents questioned how IFRS for SMEs would be applied and how NPO specific financial reporting issues requiring departure from IFRS for SMEs would be identified.

For some of these respondents this meant that IPSAS would provide a more appropriate foundational framework, as it was more closely aligned to the characteristics of NPOs and the NPO specific financial reporting issues that had been identified.

For others, who were concerned as to how conceptual coherence would be possible when several different international and jurisdictional-level frameworks would be used to develop the Guidance, it meant additional clarity was needed on the hierarchy of frameworks used to develop the Guidance.

In relation to whether IPSAS would be more appropriate as the foundational framework, the IFR4NPO Secretariat notes that had an “IPSAS for SMEs” been available then this may have been deemed to be a better solution when assessed against the criteria than IFRS for SMEs.

Such a framework does not, however, currently exist and the benefits of IFRS for SMEs, in particular the fact that it provides a shorter, simplified standalone Standard with reduced disclosures, are deemed by the Secretariat to outweigh the conceptual benefits of IPSAS highlighted by respondents.

In relation to NPO specific reporting issues, the IFR4NPO Secretariat would also reiterate that IPSAS will be a key source of accounting and reporting solutions for the Guidance.

It is also the case that the IPSASB has a well-established process for using relevant IASB documents as a start point for its guidance, with terminology changes and/or amendments made where necessary for the public sector context. This is similar to the approach taken in the proposed Guidance model and should ensure that maximum benefit is obtained from all of the international frameworks.

What would the Guidance comprise and which NPOs would be covered by the Guidance?

There was some uncertainty amongst respondents as to exactly what the Guidance would comprise. A number questioned whether it would be a complete suite of standards in one standalone set of Guidance, an annotation of IFRS for SMEs, or if it would be necessary for NPOs to refer to multiple different sources of financial reporting standards.

The IFR4NPO Secretariat's preferred option is for the Guidance to be a set of self-contained guidance that would directly replace sections of the *IFRS for SMEs* standard. This would mean that where IFR4NPO is not directly addressing a topic as part of the project scope, the sections in the *IFRS for SMEs* standard would be extant.

The status of the Guidance was also raised. One respondent indicated that they were not clear if the term 'Guidance' meant a level of optionality or if the accounting and reporting treatments including in the Guidance would be expected to be mandatory. Others questioned whether jurisdictions would require NPOs to apply the Guidance at all when they had their own accounting regulations already in place tailored to their own jurisdictional requirements. A respondent also noted the risk that different rates of adoption globally would potentially reduce the comparability of NPO financial and non-financial information.

The IFR4NPO Secretariat would note that decision on which entities are required or permitted to use the Guidance, including whether this includes

some or all of the Guidance, will rest with legislative and regulatory authorities and standard-setters in individual jurisdictions.

Uncertainty was also expressed as to which NPOs the Guidance was expected to cover, including the view that momentum for the project would be weakened if only some NPOs were covered. A wide range of respondents asked whether consideration had been given to the creation of reporting tiers which would also enable Guidance (potentially on the basis of modified cash or cash) to be provided to NPOs who had been identified in the Consultation Paper as having a more local focus for service delivery and funding sources and with simpler operations and transactions to account for.

The IFR4NPO Secretariat notes that the Guidance is intended for use by all NPOs irrespective of type or size. Initially the focus of the development of the Guidance is expected to be based on the needs of those NPOs that have a complexity of operations and transactions and/or that have jurisdictional or international level service delivery and funding characteristics that could benefit most through increasing the quality, consistency, transparency, comparability and reliability of financial reporting.

Practical considerations related to the adoption of the Guidance

Questions from respondents as to whether reporting tiers had been considered also fed into practical considerations raised in relation to adoption of the Guidance based on the proposed model.

Several respondents noted that even though simplified in comparison to full IFRS Standards and IPSAS, IFRS for SMEs would still lead to complexity, especially in relation to disclosures and notes to the financial statements compared to current requirements for many NPOs.

Many respondents indicated that this meant that the provision of training and education and implementation guidance would be crucial in supporting adoption of the Guidance. There was recognition, however, that the use of international frameworks would support this, with a significant degree of free education and training materials available in relation to the IFRS for SMEs Standard in particular

The IFR4NPO Secretariat recognises that the practical considerations raised in relation to the proposed Guidance model do require consideration as to how we can ensure proportionate application of accrual-based Guidance given constraints in capacity, skills and expertise.

Chapter 5: Summary of proposed way forward for the Exposure Draft

The IFR4NPO Secretariat will develop a restricted set of standalone Guidance, utilising the IFRS for SMEs Standard as the foundational framework while drawing on other international and jurisdictional-level frameworks to develop NPO-specific reporting solutions. Development of the Guidance will be guided by a need to ensure proportionate application given constraints in capacity, skills and expertise.

Part 2 Responses

Part 2 of the Consultation Paper was written for those interested in the technical accounting considerations of NPO-specific issues. It considered a number of NPO-specific financial reporting issues, with a focus on assisting in delivering the third project objective – to address specific NPO issues, which will promote the comparability of NPO financial reports.

Part 2 contained an overview which examined how the IFR4NPO Secretariat had identified and selected NPO-specific financial reporting issues, and then ten individual issue papers each examining a NPO-specific financial reporting issue.

The responses to the individual issue papers will be analysed on an issue by issue basis by the IFR4NPO Secretariat over the next two years, with proposals brought forward for each via individual Exposure Drafts. As such this document highlights the extent to which the different alternative financial reporting treatments were supported by respondents for each individual issue but does not give an IFR4NPO Secretariat view on the way forward.

The document does though provide the IFR4NPO Secretariat's view on the responses to Specific Matter for Comment 0: Identification and Selection of NPO-specific financial reporting issues.

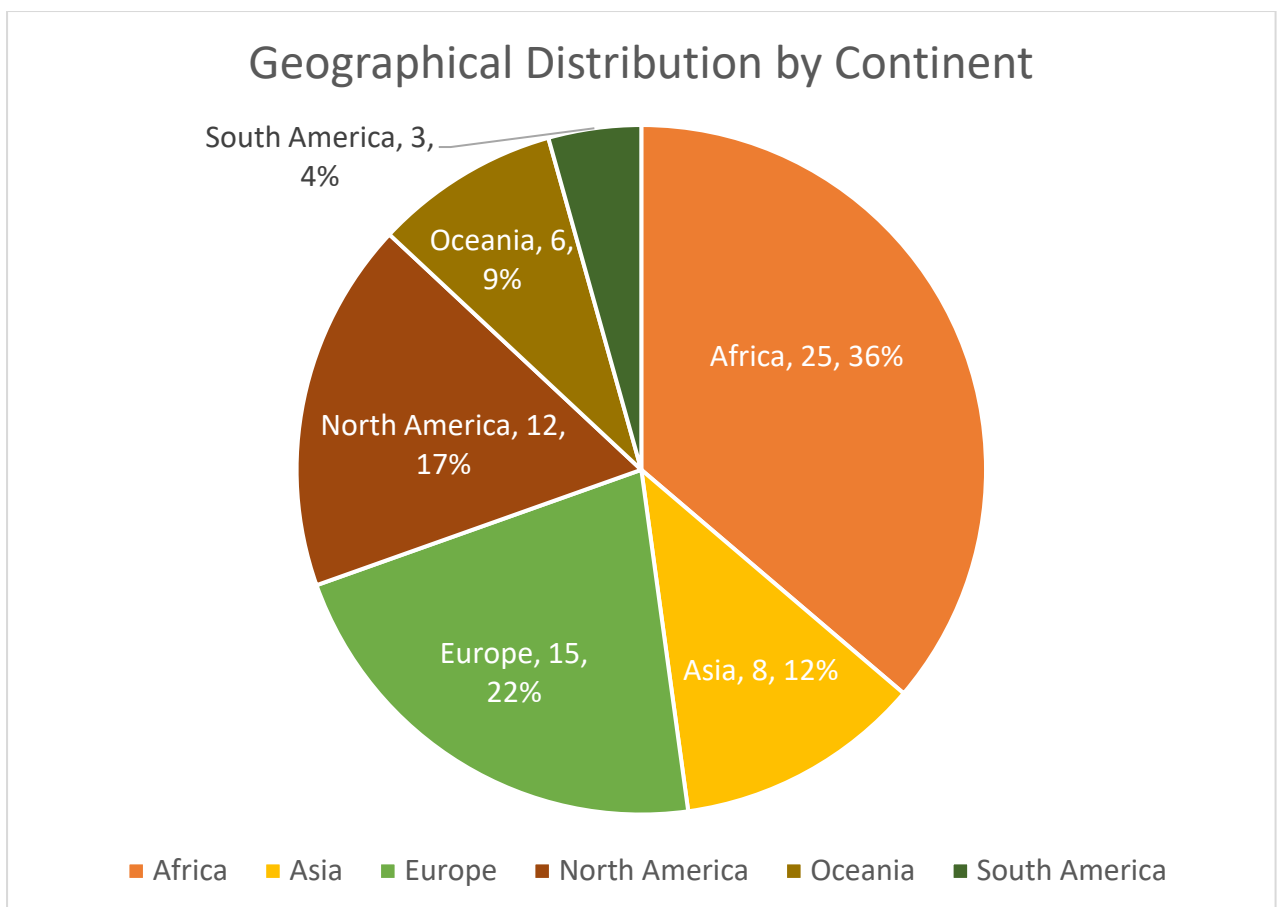
The high level summary of which issues the IFR4NPO Secretariat proposes to move forward with at the Exposure Draft stage is noted below.

Part 2: Proposal for NPO-specific issues that will be selected for the Exposure Draft

Given the frequent reference to foreign exchange expenses throughout the project outreach processes and in the Consultation Paper responses the IFR4NPO Secretariat will consider adding foreign exchange expenses to the prioritised list of issues considered for the Guidance. It will also consider responses to the other sections to determine whether one of the other issues will be moved to the long list of issues for consideration.

Statistics on respondents to Part 2

Part 2 of the consultation closed on 24 September 2021, though this deadline was extended until 7 October 2021. Overall, there were 69 respondents to the consultation. The diagram below shows that the consultation had a global reach with the largest number of respondents from Africa.



Responses were received from respondents using an on-line survey (48 responses) and respondents that either used on-line forms or their own consultation response formats (21 of the responses).

Specific Matters for Comment 0: Identification and Selection of NPO-specific financial reporting issues

The Overview of Part 2 of the Consultation Paper provided an explanation of how NPO-specific financial reporting issues had been identified and then prioritised for inclusion in the Consultation Paper.

Issues were identified by the IFR4NPO Secretariat through reporting in academic studies, by standard setters and by members of the NPO community, including donors. A description of each of the issues was then developed with input from the project advisory groups, before they were prioritised in accordance with the following criteria:

- Prevalence
- Consequence
- Demand
- Feasibility

Respondents to the Consultation Paper were asked:

SMC 0a - Is the list of NPO-specific financial reporting issues complete? If not, please provide information about the further issues that you believe are specific to NPOs, or issues that should be removed, together with supporting reasoning for the change(s) you propose.

SMC 0.b - Do you agree with the criteria used to evaluate the list of issues? If not, what changes would you make and why?

SMC 0.c - Do you agree with the topics prioritised for the Consultation Paper? If not, outline which topics should be added or removed and why.

Statistics on responses received to the Overview

	Agree	Disagree	Neither Agree nor Disagree	Total responding to SMC
SMC0.a)	13 (54%)	9 (38%)	2 (8%)	24
SMC0.b)	16 (80%)	4 (20%)	0	20
SMC0.c)	10 (48%)	11 (52%)	0	21

IFR4NPO Secretariat views on the formal responses received and proposed way ahead

List of NPO- Specific Topics (the Long List)

There were a variety of different issues suggested by respondents agreeing and disagreeing with the list and comments were included for topics currently on the list and some which were not. These are summarised in the table below.

Table 2: List of Items Referred to in Consultation Responses for the Long List of NPO-specific Financial Reporting Issues

Issue	Comments from Respondents	Secretariat Comment
<i>Items which Potentially Should not be Included on the List</i>		
Accounting for investment/financial assets	The respondent commented that it was not clear what the NPO reporting issue was.	This should remain on the long list for further consideration and where relevant more detail can be provided.
Financial reporting of foreign currency transactions	A respondent commented this is not specific to the sector and the matter raised arises because of donor reporting requirements. It is relevant to special purpose financial reports and therefore not in line with the scope of the project.	Financial reporting of foreign currency transactions does arise because of donor reporting requirements, but it is suggested that this issue should be considered in more detail and potentially for the short list as this was also an issue raised frequently at the outreach sessions.
Service concession arrangements with NPO as operator	These are not restricted to NPOs and therefore the respondent considered it was not necessary for guidance to cover this issue.	It is not clear that this is an issue which has generated much response in the consultation and outreach process. This should be retained on the long list for further review.
Service concession arrangements with NPO as grantor	The respondent noted that there would need to be changes to the foundational framework to accommodate this.	It is agreed that articulation would be required for Service Concessions arising in NPOs as grantor though this has not been raised significantly by the consultation process. This should be



Issue	Comments from Respondents	Secretariat Comment
		retained on the long list for further review.
Items which Potentially Should be Added to the List		
Reserves and restricted funds	A respondent commented that Information should be provided on sources of, purpose, and time period of these funds	The Secretariat would note that Fund Accounting and Reserves is included in the Presentation of Financial Statements topic. This should be able to cover these items.
Heritage assets	A respondent was of the view that this issue is of reasonably widespread application, not just in the arts, museums and heritage sector.	Heritage assets transactions are on the full list of topics to be considered. It is not clear that a case has been made so that heritage assets should be prioritised to the first phase of issues.
Related party transactions	Comments referred to regulatory interventions in the UK being such that conflicts of interest are often a key factor.	This is on the longlist of Issues, but it is possible that this should be considered for inclusion on the short list.
Pensions costs	A respondent commented that this should be included on the list given the variety of post-employment benefits provided by NPOs.	Pensions costs can be an issue for the third sector but has not been raised significantly in outreach activities. It is suggested that this might be included on the long list.
Social impact accounting	A respondent expressed the view that this was key to NPOs' financial reporting in some countries such as the United Kingdom (note that this was not a UK based respondent).	Social impact reporting is an important area for NPOs ie demonstrating the impact that the NPO has made as a result of its activities and/or fundraising and is an important part of public accountability but this is a complex area and difficult to provide guidance on. It may be able to be raised under the narrative reporting Issue.
Statement of cash flows	This was considered necessary to ensure NPOs have proper guidance to develop this Statement to complement accrual based general purpose financial statements.	Arguably there should be appropriate guidance in IFRS for SMEs as cash flows are important for all entities whether they are commercial or third sector. But this could be reviewed as a part of the



Issue	Comments from Respondents	Secretariat Comment
		presentation of financial statement topic.
Grants and Service Contracts	A respondent commented that the distinction between grants and service contracts can be difficult at times.	The distinction between grants and service contracts did not receive significant comment at outreach stage. This could be considered in the Grant Expenses topic.
Joint Activities	A respondent queried whether joint activities fit into Reporting Entity Issue because NPOs acting together on campaigning activities has become much more common, at least in the UK.	It is not clear that joint activities are a significant issue which should be included on the list. Though these may be covered in a Concepts and Pervasive issues section.
Concepts and Pervasive Issues	<p>Two respondents considered several issues should be included under the section including:</p> <ol style="list-style-type: none">1. underlying concepts and principles to act as decision making criteria for accountants and auditors2. form and content of the non-financial information3. new names of reports4. new terminology5. management and board performance reports. <p>One of the respondents considered that the reporting entity should be considered in this section. Another respondent referred to the use of 'substance over form'.</p>	It is likely that most of these issues will be covered in the Concepts and Pervasive Issues section. Substance over form will apply equally to all entities though there may need to be some discussion over whether there are different issues for NPOs.

Criteria used to Evaluate the List of Issues

80% of respondents commenting on question 0.b agreed with the criteria, which is a very positive response, albeit with a limited response rate. One respondent commented on the need to weight the criteria in the context of a specific issue may be challenging with suggestions of evaluating the criteria simultaneously. A

further respondent commented that the concept of prevalence could be restricted to those with a material impact globally, though the Secretariat would comment that this may be dealt with by means of the consultation process.

A respondent commented on feasibility and that the most important issues are complex ones and difficult to resolve. The Secretariat would note that the list has prioritised complex issues that are important to the NPO sector, though this will be tested by the consultation process. A further respondent commented that the criteria left out NPOs operating in the government sector. The Secretariat is of the view that a criteria-based approach is often used to assess applicability in standards and that this will allow entities (including those in the government sector) to make their own decisions.

Topic Prioritised for the Consultation Paper

48% of respondents agreed with question 0.c with 52% disagreeing with the list of topics prioritised in the Consultation Paper. This response is therefore balanced as to whether it is supported by the respondents to the consultation.

Table 3 below presents a list of the items referred to in the by respondents to the consultation.

Table 3: List of Items Referred to in Consultation Response for the Prioritised List of NPO Specific Financial Reporting Issues

Issue	Respondents Comment	Secretariat response
Related party transactions	Several respondents commented on these transactions indicating that they have significant impact on public trust and confidence by providing transparency.	It is less clear why standards would not be able to provide adequate guidance before the second phase, so the Secretariat is considering whether this should await the later phase.
Remuneration/pay disclosures	Two respondents expressed a view indicating that the disclosures provide an important source of information on how NPOs are discharging their governance and accountability obligations	The Secretariat would agree that remuneration and pay disclosures transactions would fulfil the roles described by the respondents, but it is less clear that standards would not be able to provide adequate guidance before the second phase



Issue	Respondents Comment	Secretariat response
	and that such disclosures could have a significant impact on public trust and confidence by providing transparency.	and that this issue is probably also covered by regulatory reporting requirements.
Foreign exchange transactions	Respondents commented that these transactions have a material impact on the reporting of many NPOs including fund accounting. This would affect those who are operating in hyperinflationary economies. Another respondent commented that this was important for smaller NPOs in the developing world,	The Secretariat would note that this issue was raised very frequently at the IFR4NPO global outreach sessions but would highlight the commentary of an earlier respondent to question 0a) about this being outside the scope of the project because of donor issues and would feature as specialised financial reports. The responses of these respondents would seem to indicate that at least some of the issues may relate to general purpose financial reporting. It is suggested that this may be prioritised to the first phase.
Legacy income	Respondents commented that Inconsistency of treatment may affect the decision-making of stakeholders.	The Secretariat agrees that this is an important topic (on the long list) for many but not all NPOs. The project has not had significant representations on this topic. So, the Secretariat would consider that this is assessed in the later phase
Simple financial assets, including investments	A respondent commented that consistent recognition and measurement requirements are important to ensure appropriate accountability for funds under an NPO's control.	It is not clear that standards would be unable to provide adequate guidance before a second phase.
Consolidation	A respondent commented on this being relevant to NPO structures and that there was a significant diversity in practice which presents accountability challenges.	This was not raised as a significant issue during outreach so the Secretariat would not propose it as part of a later phase.

Issue	Respondents Comment	Secretariat response
Leases	A respondent commented many NPOs who have leases face cost benefit challenges on adoption of IFRS 16 <i>Leases</i> . They were of the view that there is an immediate need to provide the NPOs who will use this guide with a recognised alternative solution based on the approach offered by the current version of IFRS for SMEs.	The request for information as a part of the second Comprehensive Review of IFRS for SMEs sought views on aligning the IFRS for SMEs Standard with IFRS 16 including possible simplifications. Overall feedback on the request for Information about aligning the IFRS for SMEs Standard with IFRS 16 was mixed. It is suggested that no action is decided until the Comprehensive Review outcomes are known.
Fund accounting and presentation of non-exchange transactions with restrictions imposed by the donor	This was described by one respondent as a key issue in the NPO sector, as the proper administration of funds and, where permitted, how such amounts have been spent is of paramount importance to stakeholders.	It is agreed this is an important issue, but the Secretariat would argue that this is linked to the Presentation of Financial Statements, and it will get appropriate attention within this issue.
Grant expenses	One respondent suggested that this topic should also refer to liabilities.	This could be considered when reviewing this issue following the consultation responses.
Non-financial reporting and conceptual issues	A respondent that agreed commented that other important areas were not included including ratio analysis output reporting, the financial statements naming convention and the accountability reporting framework.	The Secretariat would comment that these will be considered either under the presentation of financial statements or a concepts and pervasive issue section.

Given the frequent reference to foreign exchange expenses throughout the project outreach processes and in the Consultation Paper responses the IFR4NPO Secretariat will consider adding foreign exchange expenses to the prioritised list of issues considered for the Guidance. It will also consider



responses to the other sections to determine whether one of the other issues will be moved to the long list of issues for consideration.