

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED04-06
01 December 2021 – Online

IPSASB “Rules of the Road” and International Non-Profit Accounting Guidance (INPAG) process for making changes to the *IFRS for SMEs* Standard

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| Summary | The IPSASB has a process for considering IASB documents for convergence that can provide a useful start point for the development of an INPAG process for making changes to the <i>IFRS for SMEs</i> Standard. |
| Purpose/Objective of the paper | To provide TAG members with an overview of the IPSASB “Rules of the Road” process for considering IASB documents for convergence and a proposal for the INPAG process for making changes to the <i>IFRS for SMEs</i> Standard. |
| Other supporting items | Annex A: IPSASB “ <i>Process for Reviewing and Modifying IASB Documents</i> ” Annex B: “ <i>Process for developing International Non-Profit Accounting Guidance through making changes to the IFRS for SMEs Standard</i> ” |
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| Actions for this meeting | Note the IPSASB “Rules of the Road” process for considering IASB documents for convergence and Comment on the initial proposal for an INPAG process for making changes to the <i>IFRS for SMEs</i> Standard. |

Technical Advisory Group

IPSASB “Rules of the Road” and INPAG process for making changes to the *IFRS for SMEs* Standard

1. Background

- 1.1 At the previous TAG meeting, discussion on the responses to the Consultation Paper proposals for the Guidance model highlighted the need for a clear process to determine when changes to the *IFRS for SMEs* Standard would be appropriate.
- 1.2 It was noted that the IPSASB’s approach to considering IASB documents for convergence, the “*Process for Reviewing and Modifying IASB Documents*” colloquially known as the “Rules of the Road” might be a useful start point for the development of this process.
- 1.3 This paper presents the IPSASB “Rules of the Road” and also provides an initial proposal for a potential International Non-Profit Accounting Guidance (INPAG) approach based on this.

2. IPSASB “Rules of the Road”

- 2.1 The IPSASB develops accrual-based International Public Sector Accounting Standards (IPSASs) to address public sector financial reporting issues in two different ways:
 - By addressing public sector financial reporting issues (a) that have not been comprehensively or appropriately dealt with in existing International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), or (b) for which there is no related IFRS; and
 - By developing IPSASs that are IFRS-aligned by adapting them to the public sector context.
- 2.2 The IPSASB’s “Rules of the Road” sets out the process for determining the approach to the use of IASB documents through a four step approach. The IPSASB uses the analysis resulting from this process to determine whether identified public sector issues warrant departures from the IASB document, and if so, the nature and extent of these when developing the related IPSASB document.

- 2.3 *Step 1: Are there public sector issues that warrant departure?* This step assesses public sector issues to determine if they warrant a departure in recognition or measurement, or in presentation or disclosure. If there are public sector issues that warrant departure then it is necessary to assess whether a separate public sector project be initiated in Step 2. If not the Step 4 is followed.
- 2.4 *Step 2: Should a separate public sector project be initiated?* This step determines whether to initiate a separate public sector project. If consideration of this step identifies public sector issues that warrant a separate public sector project, a project brief is prepared for IPSASB approval and standard setting due process followed. If it is determined that the public sector issues can be addressed within a document that is converged with the related IASB document then Step 3 is followed.
- 2.5 *Step 3: Modify IASB documents.* This step sets the parameters for modifying an IASB document to address public sector departures. Once the IASB document is amended as necessary, Step 4 is followed.
- 2.6 *Step 4: Make IPSASB style and terminology changes to IASB documents.* This step identifies changes to style and terminology to be applied to all IPSASs.
- 2.7 The full “Rules of the Road” document has been provided as an Annex to this paper.
3. INPAG due process for making changes to the *IFRS for SMEs* Standard
- 3.1 Discussion at the last TAG meeting highlighted that it would be useful to explore the development of a similarly clear process for determining when the Guidance would make changes to the foundational framework of the *IFRS for SMEs* Standard. The Secretariat has therefore developed an initial proposal which, subject to TAG member views and further refinement, could be utilised for the INPAG. This proposed process is provided in full in Annex and a summary noted below.
- 3.2 The INPAG is expected to be a standalone document based on the *IFRS for SMEs* Standard. It will be divided into two Parts. Part1 will include Sections from the *IFRS for SMEs* Standard that have subject to full review with the necessary NPO-specific changes made. Part 2 where NPO-specific financial reporting issues have not been subject to comprehensive review through the IFR4NPOs project, and appropriate terminology changes only have been made.

- 3.3 It is proposed that determining whether a change is necessary to the *IFRS for SMEs* Standard will follow a four Step process. A change is defined as any change where the original text of the *IFRS for SMEs* Standard is not directly brought into the INPAG. This could be through:
- (a) Adaptation – a change made to the financial reporting guidance requiring an NPO to follow a specific requirement that is different to the original *IFRS for SMEs* Standard’s recognition, measurement, presentation or disclosure principles – e.g. a requirement to measure property, plant and equipment based on service potential;
 - (b) Interpretation – a change made to the financial reporting guidance requiring an NPO to follow a specific requirement that is in accordance with the original *IFRS for SMEs* Standard’s recognition, measurement, presentation or disclosure principles – e.g. a requirement to measure property, plant and equipment at cost but with no option to measure at fair value; or
 - (c) Amendment – a change in style or terminology of the underlying *IFRS for SMEs* Standard Section or the provision of NPO-specific examples where the underlying recognition, measurement, presentation or disclosure principles are not changed.

Step 1: Are there NPO-specific issues that warrant a change to the IFRS for SMEs Standard?

- 3.4 Step 1 would assess NPO-specific issues to determine if they warrant a change to the requirements of the *IFRS for SMEs* Standard in recognition or measurement, or in presentation or disclosure.
- 3.5 In determining whether there is an NPO-specific issue that warrants a change to the *IFRS for SMEs* Standard, consideration would be given to whether the issue impairs the ability of the users of General Purpose Financial Reports (GPFs) to obtain useful information for accountability and decision making and whether the financial reporting issue is widespread globally. In considering these issues there would be a focus on the extent to which applying the existing *IFRS for SMEs* Standard content would mean that the objectives or qualitative characteristics of financial reporting by NPOs would not be met or would require undue cost and effort.
- 3.6 If Step 1 identified NPO-specific issues that warrant a change to the *IFRS for SMEs* Standard, Step 2 would be followed. If not Step 4 would be followed.

Step 2: Should an entirely new NPO-specific Section of the INPAG be developed?

- 3.7 Step 2 would determine whether it was necessary to develop an entirely new Section for inclusion in the INPAG. This would be necessary if the NPO-specific issue was not dealt with at all in the *IFRS for SMEs* Standard. It may also be necessary if the *IFRS for SMEs* Standard does deal with the issue, but does not adequately address NPO sector circumstances.
- 3.8 If an entirely new NPO-specific Section were required, then a financial reporting framework hierarchy would be followed when developing the financial reporting guidance for inclusion in the Section.
- 3.9 This would follow the Guidance model proposed in the Consultation Paper, with IPSAS, IFRS Standards and their broader conceptual frameworks first examined to develop a NPO-specific solution. In the event that these international frameworks do not comprehensively or appropriately deal with the NPO-specific financial reporting issue, or additional guidance on how these frameworks can be applied to the NPO-context is sought, then jurisdictional-level standards will be drawn on to address remaining coverage gaps.

Step 3: Can the NPO-specific issue be resolved by adapting or interpreting the existing Section within the IFRS for SMEs Standard for the INPAG?

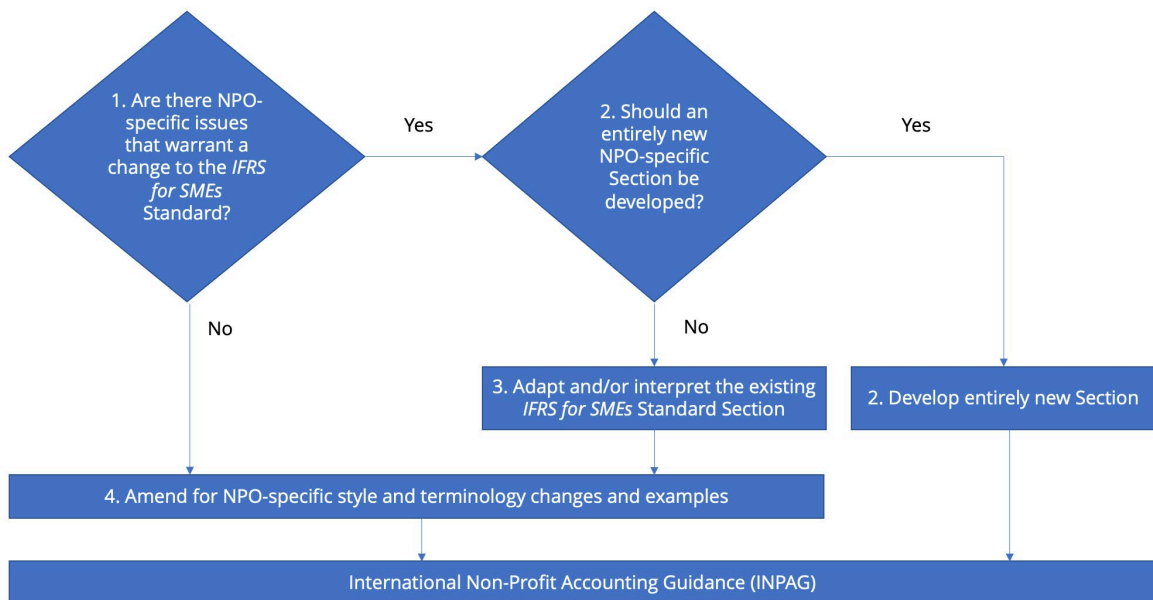
- 3.10 Consideration of the NPO-specific issue in Step 2 might determine that it can potentially be addressed by adapting or interpreting the existing Section of the *IFRS for SMEs* Standard rather than developing an entirely new Section for the INPAG.
- 3.11 In this case parameters would be established for the extent of adaptation or interpretation. Adaptations and interpretations would only be made to address the NPO-specific issue that warrants the adaptation or interpretation.
- 3.12 As with Step 2, where a decision has been made that the NPO-specific issue can be resolved by adapting or interpreting the existing Section within the *IFRS for SMEs* Standard the financial reporting framework hierarchy will be followed. This will see the international financial reporting frameworks examined first for a NPO-specific solution before jurisdictional-level standards are drawn upon.

Step 4: Amending the IFRS for SMEs Standard for NPO-specific style and terminology changes and examples

- 3.13 The final Step will be to identify changes in style and terminology which will be applied throughout the *IFRS for SMEs* Standard for the INPAG, and to provide any NPO-specific examples where deemed necessary.

- 3.14 While the text and style of the *IFRS for SMEs* Standard will be maintained as much as possible, this Step will be necessary to simplify or clarify Sections from a NPO sector perspective, introduce terminology to better reflect the NPO sector scope of the INPAG, and provide appropriate guidance and examples for the NPO context.

Figure 1: Proposal for INPAG process for making changes to the *IFRS for SMEs* Standard.



4. Next Steps

- 4.1 Subject to the views of TAG members, the approach will be further refined and utilised to develop the INPAG.

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INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Annex A: IPSASB “Process for Reviewing and Modifying IASB Documents”

Annex B: Process for developing the International Non-Profit Accounting Guidance through changes to the *IFRS for SMEs* Standard.

The International Non-Profit Accounting Guidance (INPAG) Secretariat develops accrual-based financial reporting guidance for NPOs.

The INPAG is a standalone document based on the *IFRS for SMEs* Standard®, which is issued by the International Accounting Standards Board (IASB). The INPAG incorporates Sections from the *IFRS for SMEs* Standard directly where there is no NPO sector specific reason for any change to be made.

Where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing *IFRS for SMEs* Standard, or where there is no related Section in the *IFRS for SMEs* Standard providing any financial reporting guidance, the INPAG may make a change to the *IFRS for SMEs* Standard. This change may include the development of an entirely new Section, or the adaptation or interpretation of an existing Section of the *IFRS for SMEs* Standard. Sections of the *IFRS for SMEs* Standard may also be subject to limited amendment to ensure consistent style and terminology throughout the INPAG and to provide NPO-specific examples.

The following pages set out:

- the process for identifying NPO-specific financial reporting issues;
- determining whether these NPO-specific financial reporting issues require a change to the *IFRS for SMEs* Standard;
- the nature of the change to the *IFRS for SMEs* Standard; and
- how the INPAG Secretariat draws on other international and jurisdictional-level financial reporting frameworks to develop financial reporting guidance where a change is required to the *IFRS for SMEs* Standard.

The INPAG Secretariat will use professional judgment in reaching its conclusions. As part of due process it will consult with the Technical Advisory Group on the technical financial reporting considerations. The aim of such consultation is to achieve consensus on the changes proposed. In the event that consensus cannot be achieved, more than one alternative may be proposed in the

Exposure Draft. If there is lack of consensus in the final Guidance, consultation will take place with the Steering Group to determine the way forward.

Consultation will also take place with the Practitioner Advisory Group on the more practical financial and operational implications for NPOs of any proposed changes to the *IFRS for SMEs* Standard. Given the range of stakeholders, consensus is not expected of this group.

After reaching a conclusion, the INPAG Secretariat will apply its guidance-setting due process in developing financial reporting guidance. As part of this due process, reasons for conclusions will be documented in the related Basis for Conclusions that accompany the INPAG where there has been a change to the *IFRS for SMEs* Standard.

The review of NPO-specific reporting issues, the *IFRS for SMEs* Standard, and other international and jurisdictional-level reporting frameworks is ongoing. The process for determining changes to the *IFRS for SMEs* Standard will be regularly assessed to determine if any changes are needed to enhance it and improve the INPAG.

Step 1: Are there NPO-specific issues that warrant a change to the *IFRS for SMEs* Standard?

The goal of this step is to assess NPO-specific issues to determine if they warrant a change to the requirements of the IFRS for SMEs Standard in recognition or measurement, or in presentation or disclosure.

In determining whether there is an NPO-specific issue that warrants a change to the *IFRS for SMEs* Standard, the INPAG Secretariat considers:

- (i) Whether the issue impairs the ability of the users of General Purpose Financial Reports (GPFs) to obtain useful information for accountability and decision making; and
- (ii) Whether the financial reporting issue is widespread globally.

In considering these issues the INPAG Secretariat focuses on the extent to which applying the existing *IFRS for SMEs* Standard content would mean that the objectives or qualitative characteristics of financial reporting by NPOs would not be met or would require undue cost and effort.

All decisions will be made in the context of considering:

- consistency with the “Concepts and Pervasive Principles” of the INPAG; and
- internal consistency with other areas of the INPAG where there has already been a change to the *IFRS for SMEs* Standard.

Items that might affect the above consideration include:

- The existence of donated assets or non-exchange activities;
- The existence of non-cash-generating activities or assets;
- Differences related to the structure or service potential of assets
- Differences in funding including the prevalence of voluntary contributions;
- Accountability/stewardship differences;
- Governance or management differences; and
- Sustainability issues.

In the event that there is a requirement to prioritise issues given resource constraints, the INPAG Secretariat also considers:

- (i) Whether the issue has been raised by multiple stakeholder groups, or a single stakeholder group across multiple jurisdictions with widespread support for the need to address a specific issue; and
- (ii) Whether it is expected that a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints.

If the consideration of Step 1 identifies NPO-specific issues that warrant a change to the *IFRS for SMEs* Standard, go to Step 2.

If the consideration of Step 1 does not identify NPO-specific issues that warrant a change to the *IFRS for SMEs* Standard, go to Step 4 to determine if amendment is required to ensure consistent style and terminology or to provide examples relevant for the NPO context.

Step 2: Should an entirely new NPO-specific Section of the INPAG be developed?

The goal of this step is to determine whether to develop an entirely new NPO-specific Section for inclusion in the INPAG.

In assessing whether to develop an entirely new NPO-specific section for inclusion in the INPAG, the nature of the identified NPO-specific issue would be considered.

The IFRS for SMEs Standard does not deal at all with the NPO-specific issue

If the NPO-specific issue is not dealt with at all in the *IFRS for SMEs* Standard, then it is likely that an entirely new NPO-specific Section will be developed for inclusion in the INPAG.

Where an entirely new NPO-specific Section is to be developed, then the INPAG Secretariat follows a financial reporting framework hierarchy when developing the financial reporting guidance for inclusion in the Section.

The INPAG Secretariat will first look to other international financial reporting frameworks, namely International Public Sector Accounting Standards® (IPSAS), International Financial Reporting Standards® (IFRS Standards), and their broader conceptual frameworks for a NPO-specific solution. International frameworks are first examined because they are designed to be internationally applicable rather than based on an individual jurisdiction's needs, and have consistency with international accounting standards in other sectors. They also have conceptual similarity to the *IFRS for SMEs* Standard, which promotes the conceptual coherence of the INPAG.

In the event that the other international frameworks do not comprehensively or appropriately deal with the NPO-specific financial reporting issue, or additional guidance on how these frameworks can be applied to the NPO-context is sought, then the INPAG Secretariat can then draw on jurisdictional-level standards to address remaining coverage gaps.

Some jurisdictional-level standards already provide interpretations or guidance based variously on the *IFRS for SMEs* Standard, IPSAS and IFRS Standards as well as specific standards and/or guidance based on local GAAP. These are useful in

developing the INPAG where local interpretations add to international guidance or where there is no content in the existing international frameworks.

Where jurisdictional-level standards are drawn upon, the IFR4NPO Secretariat will give preference to those that have been developed in a manner that is sufficiently consistent with the conceptual framework of IFRS Standards and/or IPSAS. This promotes the conceptual coherence of the INPAG.

The IFRS for SMEs Standard does deal with the issue, but does not adequately address NPO sector circumstances

In other situations, an existing Section of the *IFRS for SMEs* Standard may deal with an issue but may not address NPO sector circumstances, or if it does, does not do so adequately. In deciding whether to adapt or interpret the relevant Section of the *IFRS for SMEs* Standard or develop an entirely new NPO-specific section for inclusion in the INPAG, it will be important to assess (a) the importance and prevalence of the issue in the NPO sector, and (b) the adequacy with which it has been dealt with in the existing Section of the *IFRS for SMEs* Standard.

If the consideration of Step 2 identifies NPO sector specific issues that warrant the development of an entirely new NPO-specific Section for inclusion in the INPAG, this will follow the guidance-setting due process.

If the NPO sector specific issue can be addressed by adapting or interpreting the guidance within the existing relevant Section of the IFRS for SMEs standard, go to Step 3.

Step 3: Can the NPO-specific issue be resolved by adapting and/or interpreting the existing Section within the *IFRS for SMEs* Standard for the INPAG?

When a decision has been made that the NPO-specific issue warranting a change can potentially be addressed by adapting and/or interpreting the existing Section of the *IFRS for SMEs* Standard for the INPAG, it is important to establish parameters for the extent of adaptation and/or interpretation. Adaptations and interpretations would only be made to address the NPO-specific issue that warrants the adaptation or interpretation. In determining appropriate

adaptations and/or interpretations, the INPAG Secretariat will consider the following:

1. Recognition and measurement requirements may be modified if doing so would result in the objectives or qualitative characteristics of NPO financial reporting being better met, or there would be undue cost or effort in applying the requirements.
2. Where appropriate, deletions from, or other amendments to, the *IFRS for SMEs* Standard could be replaced by an alternative that better achieves the objective of NPO financial reporting.
3. Adaptations and/or interpretations could occur to eliminate options in accounting treatments if one option is clearly inappropriate for NPOs. Likewise, options in accounting treatments could be added if doing so would result in the objectives of NPO financial reporting being better met.
4. Disclosures in the *IFRS for SMEs* Standard may be added or deleted where (a) they relate to recognition and measurement requirements in accordance with (1) above, or (b) the objectives or qualitative characteristics of NPO financial reporting would be better met or there would be undue cost or effort in applying the disclosures.
5. Adaptation and/or interpretation may be made to the scope or other aspects for consistency with other INPAG content.

As with the development of an entirely new separate NPO-specific Section, where a decision has been made that the NPO-specific issues warranting a change can potentially be addressed by adapting and/or interpreting the existing Section of the *IFRS for SMEs* Standard for the INPAG, then the INPAG Secretariat looks first to other international financial reporting frameworks for a NPO-specific solution.

In the event that IPSAS, IFRS Standards, and their broader conceptual frameworks do not comprehensively or appropriately deal with the NPO-specific financial reporting issue, or additional guidance on how these frameworks can be applied to the NPO-context is sought, then the INPAG Secretariat can also draw on jurisdictional-level standards to address remaining coverage gaps.

As previously noted where jurisdictional-level standards are drawn upon, the IFR4NPO Secretariat will give preference to those that have been developed in a manner that is sufficiently consistent with the conceptual framework of IFRS Standards and/or IPSAS.

Having adapted and/or interpreted the existing Section of the *IFRS for SMEs* Standard for the INPAG, go to Step 4.

Step 4: Amending the *IFRS for SMEs* Standard for NPO-specific style and terminology changes and providing examples for the INPAG

The goal of this step is to identify changes in style and terminology to be applied throughout the IFRS for SMEs Standard for the INPAG and to provide NPO-specific examples where deemed necessary.

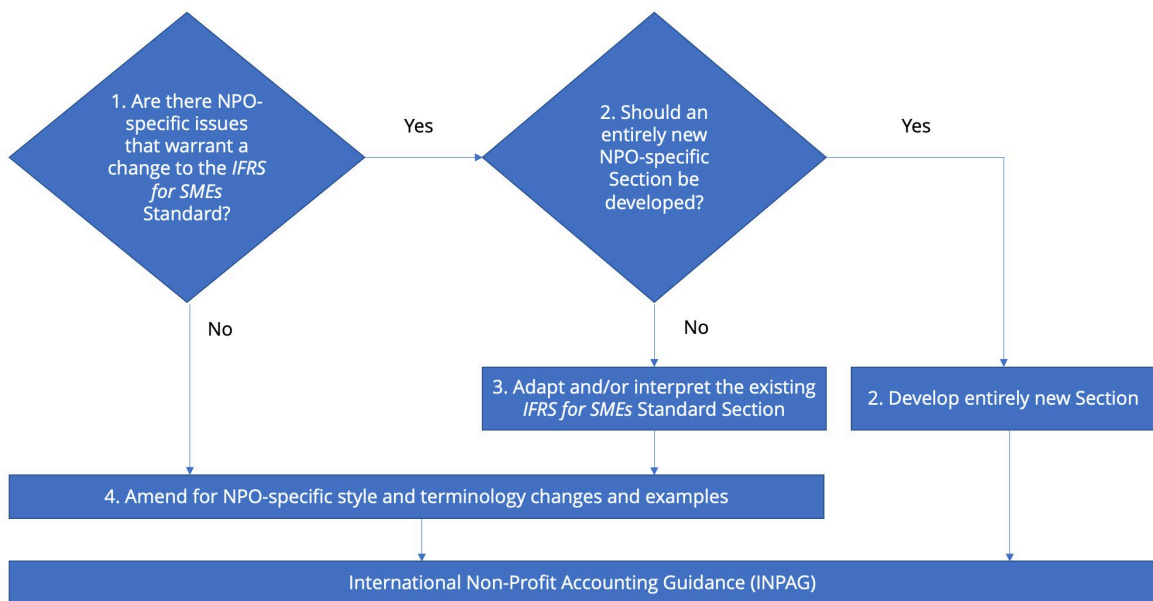
In some cases, the style and terminology of a Section of the *IFRS for SMEs* Standard will require changes to introduce NPO-specific style and terminology for the INPAG. NPO-specific examples may also be included to provide guidance on application to NPOs.

In that context, limited amendments could result from the following considerations:

- (i) The text and style of the *IFRS for SMEs* Standard will be maintained as much as possible. Changes in style would simplify or clarify the document from a NPO sector perspective.
- (ii) A boxed rubric will be included at the front of each Section. The rubric will identify the material that constitutes the Section, and the documents that provide the context in which the Section should be read.
- (iii) Definitions in the *IFRS for SMEs* Standard that have no NPO sector context may be deleted.
- (iv) Certain terminology changes may be made to better reflect the NPO sector scope of the documents.
- (v) NPO examples may be added as guidance to provide NPO context. Examples would be deleted if they are clearly inappropriate for or inapplicable to NPOs.
- (vi) The authoritative or non-authoritative nature of Appendices will be addressed within individual Sections.

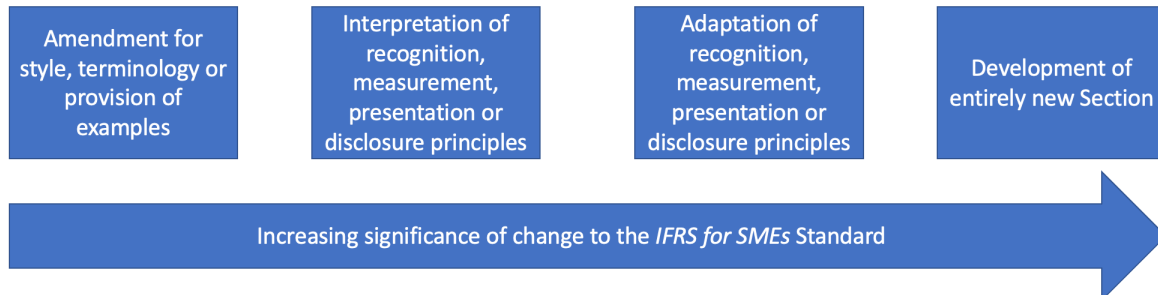
- (vii) Each amended Section will be accompanied by a Basis for Conclusions in a separate volume to the INPAG that does not form part of that Section. The Basis for Conclusions will focus on the modifications to the *IFRS for SMEs* Standard. Specifically, it will include a detailed description of the NPO sector issue, the rationale for departing from the related Section of the *IFRS for SMEs* Standard, and the implications of the changes.
- (viii) Initial adoption and transitional provisions may differ to reflect NPO sector circumstances.

Process for developing International Non-Profit Accounting Guidance (INPAG) through changes to the *IFRS for SMEs* Standard.





Spectrum of significance of changes to the *IFRS for SMEs* Standard



Definitions

Change – any change where the original text of the *IFRS for SMEs* Standard is not directly brought into the INPAG.

Adaptation – a change made to the financial reporting guidance requiring an NPO to follow a specific requirement that is different to the original *IFRS for SMEs* Standard's recognition, measurement, presentation or disclosure principles – e.g. a requirement to measure property, plant and equipment based on service potential rather than at fair value or cost.

Interpretation – a change made to the financial reporting guidance requiring an NPO to follow a specific requirement that is in accordance with the original *IFRS for SMEs* Standard's recognition, measurement, presentation or disclosure principles – e.g. a requirement to measure property, plant and equipment at cost with no option to measure at fair value.

Amendment – a change in style or terminology of the underlying *IFRS for SMEs* Standard's Section, or the provision of NPO-specific examples and deletion of inappropriate or inapplicable examples, where the underlying recognition, measurement, presentation or disclosure principles are not changed.