



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED02-02  
8 September 2021 – Online

## Guidance form

Summary	The paper builds on the discussion at the last TAG meeting about the form that the Guidance might take.
Purpose/Objective of the paper	This paper re-examines the options available for presenting the Guidance and takes account of the feedback received as part of outreach. It recommends a way forward. The objective of the paper is to consider the recommended approach in the context of advantages and disadvantages of alternatives.
Other supporting items	N/A
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Actions for this meeting	<u>Advise</u> on the options for developing the Guidance.

# Technical Advisory Group

## Developing the Guidance

### 1. Background

- 1.1 As we have previously discussed, the NPO sector is hugely diverse. For those that benefit from the operations of these organisations that is a major strength, however, this then poses huge challenges in developing and setting standards specifically for the sector and providing effective guidance.
- 1.2 At the last TAG meeting in March 2021 we discussed three options for the form of the Guidance. These were a Companion Guide, explanatory text embedded in the *IFRS for SMEs* standard and stand alone guidance. Annex A includes the options presented at the last meeting for ease of reference. There was a good discussion amongst TAG members with support for each option divided amongst the group.
- 1.3 With the consultation period either ended or coming to the end, we now need to turn to the development of the Guidance. It is therefore of critical importance that we decide on the form of the Guidance to support that development. This paper seeks a further discussion to gather input from the TAG on the options available, including the addition of a new option.

### 2. Format Options

- 2.1 Subject to feedback from the Consultation Paper we propose to use the *IFRS for SMEs* Standard as the foundation for the Guidance, drawing on other international and national standards, as well as the conceptual frameworks that underpin the international standards as required. As part of our outreach, we didn't hear strong objections to this, although there are still concerns that the standard is developed for the private sector and may therefore not be appropriate.
- 2.2 With the *IFRS for SMEs* Standard as the foundation, it will provide financial reporting guidance where there is not an NPO-specific issue, or where the project is not yet addressing an NPO-specific issue. So, it will enable a comprehensive set of guidance.

- 2.3 With a mixture of NPO specific financial reporting requirement, general financial reporting requirements and guidance, the format of the Guidance is important to ensure that it is accessible and user friendly for users.
- 2.4 At the TAG meeting in March as outlined above we considered three options, a companion guide, embedded text in the *IFRS for SMEs* standard and stand alone guidance. In parallel with the discussions with the TAG, we have also commenced discussions with the IFRS Foundation about the potential use of *IFRS for SMEs* for non-profit Guidance. Those discussions are on-going, but an important point will be ensuring that there is no confusion between standards issued by the IFRS Foundation and under their due process and the Guidance that we issue as a consequence of this project.
- 2.5 Reflecting on the feedback that we have received through the outreach, we are of the view that we should not pursue a Companion Guide that cross refers to *IFRS for SMEs*. There has been stronger support for guidance that is stand alone.
- 2.6 Taking account of this feedback we are proposing a new option, which could be considered a more enhanced form of companion guidance. This option would be set of self-contained guidance that would directly replace sections of the *IFRS for SMEs* standard. This would mean that where we are not directly addressing a topic as part of the project scope, the sections in the *IFRS for SMEs* standard would be extant. This option is a more restricted set of stand alone guidance. An example of how this might look is in Annex B.
- 2.7 This option would have the benefits previously identified for the companion guide but in addition it would also have the benefit that it addresses through a single set of text the issues relevant for NPOs. It would also have the advantage that it could be easily added to over time. Also, taking this approach it would be clear that we are not holding out that we have reviewed all of the IFRS for SME's standard, when we haven't. The disadvantages of a companion guide would be reduced and so could have greater appeal to preparers.
- 2.8 With the development of this additional option, we propose to build on our previous discussion. As noted we are planning to remove the option of a Companion Guide and replace it with a 'Restricted stand alone Guidance' option.
- 2.9 Having considered the relative merits of the different options, the proposal is that the 'Restricted stand alone' option is the basis of the Guidance to be developed.

Question 1: In the context of the proposed model does the TAG have additional thoughts on the options and their advantages and disadvantages?

Question 2: Would the TAG support the proposal for stand alone guidance that covers only those topics considered in the first wave of the Guidance.

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## Annex A – Options set out ED01-02 – Form of the Guidance

1. Based on examples from around the world, there appear to be three broad potential options for guidance:
2. **Option 1:** Establish the Guidance as a ‘companion guide’ that sits alongside the *IFRS for SMEs* Standard that can be used by practitioners in addition to the standard itself; and
3. **Option 2:** Add additional explanatory text to the *IFRS for SMEs* Standard using explanatory text boxes and/or annexes.
4. **Option 3:** Develop stand-alone Guidance that incorporates the requirements of the *IFRS for SMEs* Standard, providing guidance and interpretations relating specifically to the NPO sector.
5. There are advantages and disadvantages to each of these options. In the table below these are examined in the context of:
  - a. Ease of use
  - b. Ease of maintenance
  - c. Ease of development



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

Annex B – Guidance outline

	<i>IFRS for SME</i> chapters (current)	Stand alone Guidance
Preface	Preface	Preface
1	Small and medium size entities	Non-profit organisations
2	Concepts and pervasive principles	Concepts and pervasive principles
3	Financial statement presentation	Financial statement presentation
4	Statement of financial position	Statement of financial position
5	Statement of Comprehensive income and Income statement	Statement of Comprehensive income and Income statement
6	Statement of changes in equity and statement of income and retained earning	Statement of changes in equity and statement of income and retained earning
7	Statement of cashflows	Statement of cashflows
8	Notes to the financial statements	Notes to the financial statements
9	Consolidation and separate financial statements	
10	Accounting policies, estimates and errors	Accounting policies, estimates and errors
11	Basic financial instruments	
12	Other financial instrument issues	
13	Inventories	Inventories
14	Investment in associates	
15	Investment in joint ventures	
16	Investment property	
17	Property, plant and equipment	Property, plant and equipment
18	Intangible assets other than goodwill	
19	Business combinations and goodwill	
20	Leases	



**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS

21	Provisions and contingencies	Provisions and contingencies
22	Liabilities and equity	Liabilities and equity
23	Revenue	Exchange revenue
24	Government grants	Non-exchange revenue
25	Borrowing costs	
26	Share based payments	
27	Impairment of assets	Impairment of assets
28	Employee benefits	
29	Income tax	
30	Foreign currency translation	
31	Hyperinflation	
32	Events after the reporting period	
33	Related party disclosures	
34	Specialised advice	
35	Transition to <i>IFRS for SMEs</i>	Transition to the Guidance
36		Narrative reporting
Appendices	Appendices	Appendices