



Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGED04-02
15 November 2021 – Online

Guidance form

Summary	The paper sets out the proposals for the form of the Guidance.
Purpose/Objective of the paper	This paper describes the proposed approach to the format of the Guidance after discussion with the TAG and takes account of the feedback received as part of outreach. The objective of the paper is to seek feedback on the approach on the extent to which it will meet user needs.
Other supporting items	TAG ED01-02 and TAG ED02-02
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Actions for this meeting	<u>Advise</u> on the approach proposed.

Practitioner 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 that is relevant to all.
- 1.2 With the consultation periods ended, we are now turning to the development of the Guidance. It is therefore of critical importance that we decide on the form of the Guidance. This paper seeks input from the PAG on the option proposed.

2. Using the *IFRS for SMEs* standard

- 2.1 Drawing on the analysis of the consultation responses prepared to date we have support for the proposal to use the *IFRS for SMEs* Standard as the foundation for the Guidance. This would be alongside uses of other international and national standards, as well as the conceptual frameworks that underpin the international standards as required.
- 2.2 The use of the *IFRS for SMEs* Standard as the proposed foundational framework, will mean that there will be financial reporting guidance on topics beyond those currently being addressed by the project. The intention is to make available a comprehensive set of guidance that covers the majority of transactions that any NPO is likely to require.
- 2.3 For users of the Guidance this will result in a mixture of NPO specific financial reporting requirements, as well as more general financial reporting requirements and guidance. The format of the Guidance is therefore important to ensure that it is easy for users to navigate and that it is accessible and user friendly.

3. Guidance Format

- 3.1 At TAG meetings in March and September of this year, options for the form of the Guidance were discussed. Options included
 - i) a Companion Guide,

- ii) explanatory text embedded in the *IFRS for SMEs* standard and
- iii) forms of stand-alone guidance.

At the September meeting the TAG agreed with the Secretariat's proposal for a form of stand-alone guidance. This is in line with the feedback that we have received through the outreach.

- 3.2 This form of stand-alone guidance being proposed is a set of self-contained guidance that had been prepared by directly adding to or replacing sections of the *IFRS for SMEs* standard. Taking this approach would mean:
- a. We can add new guidance where none currently exists
 - b. We can replace existing guidance to make it more relevant for non-profit organisations
 - c. Guidance would exist where we are not directly addressing a topic as part of the project scope, with the relevant sections in the *IFRS for SMEs* standard being extant.
- 3.3 This approach would minimise the amount of work to be done to create a complete set of guidance for non-profit organisations, but would enable a stand-alone set of guidance for the sector. An example of how this might look is in Annex A.
- 3.4 This approach would have the benefit that it addresses the majority of issues relevant for NPOs through a single set of text. It would also have the advantage that it could be easily added to over time. With this approach, it would be clear that we have not reviewed all of the *IFRS for SMEs* standard. This potential advantages and disadvantages of this approach are outlined in Annex B.
- 3.5 In the Consultation Paper many of the alternatives outlined include the potential to increase the number of examples available to preparers. Adding examples could lead to an expansion in the size of the Guidance. One of the advantages of the *IFRS for SMEs* standard is that it is around 250 pages as opposed to much longer guidance in *IFRS* and *IPSAS*. Similarly, it may be beneficial to include explanations of the approach that has been taken in the Guidance (basis of conclusions). The project team will be considering how best to place examples and explanations to optimise the experience for preparers.

Questions

1. What are the PAG's views on this approach?
2. How can we make it clear which parts of the Guidance are NPO specific and which parts are not yet updated?
3. What are the PAG's view on how best to include examples and explanations?

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Annex A – Guidance outline

	<i>IFRS for SME</i> chapters (current)	Sections to be updated in proposed 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	
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

Annex B –Form of the Guidance, advantages and disadvantages

In the table below advantages and disadvantages of stand-alone guidance are examined in the context of:

- a. Ease of use
- b. Ease of maintenance
- c. Ease of development

Advantages	Disadvantages
<ul style="list-style-type: none"> • A complete set of Guidance in one place is likely to be beneficial for preparers and auditors as a single source of Guidance. • Quicker to develop as only focused on NPO specific issues and so has a limited scope. • Easier to develop over time to bring in new NPO-specific issues. • Can be written for the NPO context and provide NPO-specific examples. • Could have its own policy for update frequency. 	<ul style="list-style-type: none"> • It might be more onerous to ensure that the resulting Guidance is cohesive and entirely self-standing. • Users might not understand that not all parts of the Guidance reflect NPO specific needs as they are not being developed as part of this initial phase of the project. • 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.