



# IFR4NPO Project

Advice and Requests  
Technical Advisory Group meeting

28 June 2022  
TAGED07



# Session outline

- Concepts and pervasive principles
- Narrative reporting
- Section 8 and 10 – Financial statement presentation
- Sections 3-7 – Financial statement presentation
- Section 9 – Consolidated and separate financial statements

# Agenda item 1 – Concepts and pervasive principles

## 1.1 Advice

- a) Review the IASB paper on inconsistencies within IFRS for SMEs to see if there are areas for the Secretariat to consider. The inclusion of a provision in the Concepts and Pervasive Principles emphasising that the specific requirements of other Sections take precedence if there are any inconsistencies between the former and the latter would be helpful.
- b) Review the wording around the reporting boundary to ensure that it doesn't unintentionally generate special purpose financial reports rather than general purpose financial reports.
- c) A recent post implementation review of Tier 3 standards in New Zealand resulted in the removal of the split between restricted (where restricted was intended to capture fettered revenue that could not be deferred) and unrestricted due to preparer feedback.
- d) The concepts of restricted and unrestricted work in the UK context but can create large financial statements, where it is difficult to get a snapshot of an NPO's finances.
- e) Defining restrictions can be problematic, noting that in Canada it is legally not possible to refund a donation. Using the proposal as examples rather than characteristics may allow for different regulatory environments.

# Agenda item 1 – Concepts and pervasive principles

## 1.1 Advice

- f) The drafting needs to be clear of whether there is an intention to create a direct link between restricted and unrestricted and compliance obligations.
- g) Make clear the distinction between those revenues that go to the statement of income and expenses and those that form part of net assets so that it can inform performance reporting
- h) The terminology of 'net assets due to beneficiaries' might not be appropriate as there is no specific obligation.
- i) Recommend that 'fulfilment value' used to measure liabilities is used alongside 'value in use'. Examples of the application of 'value in use' for NPOs would be useful.
- j) Agree that existing definitions should have the same meaning across international standards.
- k) A new measurement term might be needed for the service value of NPO assets.

# Agenda item 1 – Concepts and pervasive principles

## 1.2 Requests

- a) Include a specific matter for comment to encourage feedback on the concepts of restricted and unrestricted and the practicalities for producing the financial statements.
- b) Ensure the status of proposals for concepts and pervasive principles is clear given links to subsequent EDs.



# Agenda item 2 – Narrative reporting

## 2.1 Advice

- a) The approach to sensitive issues looks appropriate.
- b) It may be useful to separate the characteristics between fundamental and enhancing, in line with the IFRS Standards. The inclusion of materiality and conciseness might be useful qualitative characteristics of narrative information
- c) It would be useful to say more on types of non-mandatory reporting and be clear how that relates to the mandatory content shown in the table
- d) It was noted variously that narrative reporting mandatory may act as a barrier to the take up of INPAG, might benefit from being optional (with the main focus on financial reporting), but also that the minimum requirement is not particularly onerous
- e) Discussing narrative reporting with Country Champions may be beneficial in getting good feedback.



# Agenda item 2 – Narrative reporting

## 2.2 Requests

- a) Frame an SMC about the mandatory content to explain the balance between the mandatory areas and the resulting recommended content. Seek feedback on the whether an extended transition period is needed for mandatory narrative reporting.



# Agenda item 3 – Sections 8 and 10 – Financial statement presentation

## 3.1 Advice

- a) The IASB is proposing to move from the requirement to disclose significant accounting policies to material accounting policies.
- b) It would be useful to explain the intersection between what should be in the notes to the accounts versus what should be in narrative reporting
- c) Cross references to IPSAS seem appropriate and consideration should be given to how national GAAP is referenced.





# Agenda item 3 – Sections 8 and 10 – Financial statement presentation

## 3.2 Requests

- a) Ensure there is appropriate cross references between Section 8 on notes to the accounts and the section on narrative reporting.

# Agenda item 4 – Sections 3-7 – Financial statement presentation

## 4.1 Advice

- a) It should be explicit that restrictions are externally imposed and not internally imposed by management or the Board (or equivalent). Need to be clear about the sources of restrictions - is it just donor or grantor related or include general legal restrictions common to all businesses.
- b) It would be helpful to be clear on how specific, 'specific purposes' needs to be to qualify as being restricted. It would be useful in the basis for conclusion to explain the rationale behind what is restricted and what is not.
- c) The split of restricted and unrestricted might only need to be mandatory in the Statement of changes in net assets, with other disclosures optional. Alternatively restricted and unrestricted might be provided by way of disclosure only.
- d) The application guidance could cover different jurisdiction legal requirements in the context of how restrictions might be required to be presented in the financial statements

# Agenda item 4 – Sections 3-7 – Financial statement presentation

## 4.1 Advice

- e) There are many different structures for NPOs, including companies limited by guarantee, where the term equity would be appropriate.
- f) Removing OCI, could result in loss of prominence of these amounts, particularly for those NPOs that have large amounts of OCI.
- g) Care should be taken in using the word 'operating' in the context of 'operating surplus or deficit'. A clear meaning is required that takes account of continuing operations and the status of voluntary measures.
- h) There may be additional items such as endowments and contributed inventory that could be disclosed on the face of the primary statement.

# Agenda item 4 – Sections 3-7 – Financial statement presentation

## 4.1 Advice

- i) The Statement of changes in net assets should include a column for non-controlled interest.
- j) Donations of and grants for non-current assets could be presented in a different section (below other income and expenses) to create a quasi capital statement consistent with the cashflow statement. Good to separate out non-recurring items..
- k) Agree that donations or grants to fund capital spend are not an operating cashflow but it is arguable whether they should be investing or financing cashflows. If endowments were included in this phase of the project, they would be included as financing cashflows.
- l) The basis for conclusions for the Statement of changes in net assets should explain where IPSAS is being used so that it is clear where text differs from IFRS for SMEs

# Agenda item 4 – Sections 3-7 – Financial statement presentation

## 4.2 Requests

- a) Where there are options about presentation, include the more complex presentation and invite comments.
- b) Secretariat to consider how to present in the ED options of presentation on the face of the primary statement or in the notes to explain the implications of the alternatives.

# Agenda item 5 – Section 9 – Consolidated and separate financial statements

## 5.1 Advice

- a) Prefer that indicators of control are provided as examples as it may be difficult to provide an exhaustive list. Illustrative examples may be useful to illustrate the application of control principles.
- b) Consider the possibility of a control relationship if an organisation gives a grant to an NPO and they are the only or a significant fund provider.
- c) Consolidated information can result in greater transparency that supports accountability even though there may be practical difficulties. It is important to identify the limitation of the flow of funds between entities within a consolidation group to provide useful information.
- d) It is beyond the scope of this phase to examine why it might not be appropriate for NPOs to consolidate.

# Agenda item – Section 9 – Consolidated and separate financial statements

## 5.1 Advice

- e) A tentative decision has been made by the Australian Accounting Standards Board to allow smaller (tier 3) NPOs to not consolidate, but require disclosure of financial information of entities that have a significant relationship with the NPO.
- f) A review of Charities Act legislation in NZ has identified questions about the usefulness of consolidated information, but there is a debate.
- g) We are not able to say whether application guidance on faithful representation and relevance relating to consolidation would be useful without consultation. Similarly, it would be useful to ask users whether their needs can be satisfied other than by consolidation.

# Agenda item 5 – Section 9 – Consolidated and separate financial statements

## 5.2 Requests

- a) Include known experiences of consolidation and the benefits in the basis for conclusions.