

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED08-04

29 & 30 September 2022 – Hybrid

Structure of ED1

Summary	This paper describes the key points emerging from feedback from the TAG on the draft text of ED1 and proposed response.
Purpose/Objective of the paper	This paper describes the key points emerging from the recent review of the draft text of ED1. This paper focuses on points that relate to the process of developing the ED, the structure of the ED itself and the organisation of its content. It also addresses any issues that have been raised in the Preface, where these are not addressed in any of the other papers.
Other supporting items	TAGED08-02 ED1 Terminology and concepts
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Actions for this meeting	<p><u>Advise</u> on:</p> <ul style="list-style-type: none"> • The use of IFRS for SMEs in INPAG • The presentation proposals for ED1, including the structure of the document • Approach to outreach following publication of ED1

Technical Advisory Group

Structure of ED1

1. Introduction

- 1.1 This paper sets out the key points emerging from feedback provided by the TAG from its recent review of the draft text of ED1. This paper focuses on points that relate to the process of developing the ED (primarily how the *IFRS for SMEs* Accounting Standard has been used), structure of the ED itself and the organisation of its content.
- 1.2 It also addresses any issues that have been raised in the Preface to ED 1, where these are not addressed in any of the other papers.

2. Main points raised

Use of the *IFRS for SMEs* Accounting Standard

- 2.1 As previously agreed with the TAG, the *IFRS for SMEs* Accounting Standard is the foundational framework for INPAG. A document was produced by the INPAG Secretariat that describes when a departure will be made from *IFRS for SMEs* Accounting Standard (which was described at the time as the equivalent to the IPSASB's rules of the road). As a consequence, for the Sections reviewed so far, the approach has been to retain the *IFRS for SMEs* Accounting Standard language where technically there is no NPO-specific difference required.
- 2.2 Some TAG members were proposing to amend the *IFRS for SMEs* Accounting Standard text where it was not clear that there was an NPO-specific reason to do so. These were mainly where TAG members wished to simplify language or strengthen the language. There were also some areas where TAG members disagree with the *IFRS for SMEs* Accounting Standard. However, these appeared to be general disagreements rather than NPO-specific issues.
- 2.3 The document that describes when a departure will be made (Process for developing the International Non-Profit Accounting Guidance through changes to the *IFRS for SMEs Accounting Standard*) will be included as a linked resource

within INPAG and will also be provided as a resource available through the IFR4NPO website. This document is contained in Annex A.

- 2.4 There was also feedback that there is an opportunity to reduce the size of the guidance by removing information that is arguably not needed, by being more direct, reducing technical accounting terms, and writing in Plain English. This was noted mainly in the areas of Chapter 1 and Chapter 2 (also see TAGED08-02 *ED1 Terminology and concepts*).
- 2.5 The Secretariat has followed the 'Approach to applying the *IFRS for SMEs* Accounting Standard' and as a consequence has maintained the *IFRS for SMEs* Accounting Standard text. In addition, Secretariat has a concern that amending the text could result in unintended consequences, particularly as not all Sections will be reviewed in Phase 1 of IFR4NPO. However, the point was made that if there is a desire to make INPAG as simple, understandable, and accessible as possible, then further changes should be made.

Question 1: Does that TAG agree that we should maintain the approach of following the 'Process for developing the International Non-Profit Accounting Guidance through changes to the *IFRS for SMEs* Accounting Standard'?

- 2.6 CIPFA will have a license agreement with the IFRS Foundation to enable the use of the *IFRS for SMEs* Accounting Standard to be used in developing INPAG. This license agreement protects the use of the intellectual property that the IFRS Foundation has in its standards. The license agreement requires that a description of the differences between the *IFRS for SMEs* Accounting Standard is included within INPAG. As a consequence a summary of differences is included at the end of each Section.
- 2.7 As well as drafting feedback on the content of each of the comparison tables included in the Draft, some TAG members questioned the need for the tables in INPAG itself and, if included in INPAG, its location. Secretariat's view is that the description of differences is kept at the end of each Section as it is not an explanatory part of INPAG, but a consequence of licensing arrangements.

Question 2: Does the TAG have any concerns about the location and content of these tables to summarise key differences to the *IFRS for SMEs* Accounting Standard?

Presentation

- 2.8 There are a number of terms that are being used to describe the development of INPAG. We have previously discussed the following:
- Phases – this is the way in which INPAG will be developed over time. The IFR4NPO project is currently in Phase 1. Phase 1 will develop the first edition of INPAG, planned to be published in 2025.
 - Stages – these are the steps that the IFR4NPO project team are going through to develop INPAG. Stage 1 was the development of the Consultation Paper, Stage 2 is development of draft guidance and Stage 3 is development of the final guidance.
 - Tranches – this was the term previously discussed to describe that INPAG will be developed in 3 parts with a separate Exposure Draft on each.
 - Volume – this is the term used to describe each individual publication. We had previously discussed the possibility of up to five volumes (core guidance, application guidance, basis for conclusions, implementation guidance and illustrative examples)
- 2.9 The title on this first ED uses the words ‘First Edition’. A question was raised as whether this was needed and its function. ‘First Edition’ was included to recognise that we expect there to be subsequent editions over time as revisions are made. We would expect each edition to supersede a previous edition and wouldn’t expect editions to co-exist. It may be argued that ‘First Edition’ is not necessary.
- 2.10 There was a feeling that terms were used interchangeably in the document. This will be reviewed as part of the editing process. The intention is to stick to the terms set out in 2.8, with the exception of calling each ED ‘Part’ rather than ‘Tranche’. The Exposure Drafts will be called Part 1, Part 2 and Part 3 and then shortened to ED1, ED2 and ED3 when subsequently used. There was a question about whether the terms used should be added to the glossary.

Question 3: Is the TAG content that ‘First Edition’ is used in the title of the documents?

Question 4: Does the TAG have any further comments on the use of these terms, including whether they should be added to the glossary?

- 2.11 In the draft of ED1 'status' was introduced to make clear to the readers of INPAG which Sections had been reviewed as part of the project and those that hadn't. This had been previously flagged by TAG members as desirable. Four statuses are proposed:

Status	Description
Fully reviewed	The Section has been fully updated to reflect NPO requirements.
Aligned	The Section has been updated to align with Sections that have been fully reviewed, but has not in itself been fully reviewed
Unchanged	The Section has been updated for terminology changes, but is otherwise unamended
New	The Section does not exist in the <i>IFRS for SMEs</i> Accounting Standard and has been developed specifically for NPOs

- 2.12 For a number of TAG members the purpose of status was not clear. An explanation of status has been developed and is included in the summary document (See TAGED08-08). A footnote will be provided at the bottom of the contents page to summarise the purpose of the 'status' and to cross refer to the summary document.

Question 5: Do TAG members have any comments on the four statuses proposed and how they are used in ED1?

- 2.13 TAG members were asked whether we should include Section 19 in ED1. Including Section 19 would provide the opportunity to show a Section that has the status 'Unchanged'. There were mixed views from TAG members, but the majority were of the view that this should not be included in this ED. The main argument was the existing length of ED1. As a consequence Secretariat are proposing to remove this Section from ED 1.

Question 6: Does the TAG agree that Section 19 should not be included in ED1?

- 2.14 A suggestion was made that a page could be inserted to explain to the reader why sections 11 to 34 have been omitted. Secretariat has drafted a page that has been included in the updated draft of ED1.

- 2.15 A number of comments were made about the use of the glossary. The glossary is an integral part of the *IFRS for SMEs* Accounting Standard and therefore it is

critical that it is included within INPAG. As not all parts of INPAG are produced in ED1, TAG members felt it important that it is made clear that not all terms are used in ED1 and that there is a possibility that further terms will be added to the glossary in ED2 and ED3. Notes have been added at the top of this table to reflect both these points.

- 2.16 There were also comments on the definitions included within the glossary. These were addressed in TAGED08-02.
- 2.17 The intention as signalled in the draft of ED1 is to include an Overview, which was still being developed when the draft was shared. In the feedback on the draft ED there was a question about whether a shorter document is needed for stakeholders. The proposal is to move from an Overview to a Summary, and the proposed approach and text is discussed in TAGED08-08.
- 2.18 All TAG members were asked about the numbering of the paragraphs within INPAG and whether the numbering should read be pulled through from the IFRS for SMEs Accounting Standard or whether the numbers should apply sequentially from the beginning. TAG members unanimously supported renumbering and this will be carried out in the final editing process.
- 2.19 All TAG members were asked whether they had a preference about whether ED1 including the basis for conclusions and implementation guidance should be presented as a single document or multiple documents. The majority of TAG members supported a single document, although some felt that breaking it down into smaller volumes would make the documents more accessible. As the documents will be accessed virtually, at this stage as pdfs, the proposal is to provide both. The website will provide access to:
- Single document containing all aspects of ED1
 - A document containing the invitation to comment
 - A document containing a summary of the approach to ED1 and main adaptations
 - A document containing the authoritative guidance
 - A document containing the basis for conclusions (non-authoritative)
 - A document containing the non-authoritative implementation guidance

Question 7: Does the TAG have any feedback on the proposed way forward not addressed in the earlier questions?

Other issues

- 2.20 Comments were raised regarding text in the Preface that notes that in order to fulfil the project objectives, INPAG aims to take account of, as appropriate, the needs of a wide range of NPOs operating in diverse setting and with different levels of financial reporting complexity. For some members it was not clear if we were trying to indicate size and/or complexity of transactions here and the focus of the Guidance initially on the middle tier of NPOs. The text in the Preface is intended to demonstrate that INPAG is being created to benefit all NPOs and not just those that the Guidance is initially aimed at. The broader discussion on use of INPAG by NPOs with less complex needs or with public accountability is covered in the Basis for Conclusions and not in the core Guidance.
- 2.21 A point was raised about the text relating to the authorisation of INPAG and suggesting that it was made clear that the TAG and PAG had reviewed INPAG. Text has been updated, confirming that TAG and PAG members operate in an individual capacity and not on behalf of the organisations that employ them.
- 2.22 A question was raised about the intention to use a survey as well as comment letters as part of outreach. The intention is to develop a survey with more quantitative type questions. The hope is that this will enable stakeholders with fewer resources to engage with the project and provide valuable feedback. The quantitative questions are intended to complement the qualitative questions that form the Specific Matters for Comment (SMCs). Further discussion on outreach is covered in TAGED08-05.

3. Material to review

- 3.1 Annex 1 contains the 'Process for developing the International Non-Profit Accounting Guidance through changes to the *IFRS for SMEs Accounting Standard*'.
- 3.2 A full redraft is provided as a separate resource for the meeting. The points addressed in this paper related mainly to the Invitation to Comment and the Preface. Tracked changes will show the edits made.

September 2022

Annex 1

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 Sections from the *IFRS for SMEs* Standard are not relevant for NPOs, these Sections do not need to be brought into the INPAG.

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 modifying an existing Section of the *IFRS for SMEs* Standard. Sections of the *IFRS for SMEs* Standard may also be subject to terminology changes to ensure consistency throughout the INPAG.

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 and the Practitioner Advisory Group on the more practical financial and operational implications for NPOs of any proposed changes to the *IFRS for SMEs* Standard. The aim of such consultation is to achieve consensus on the changes proposed. In the event that consensus cannot be achieved, consultation will take place with the Steering Group to determine the way ahead.

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 accompanies but is not part of 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. Changes made to guidance in the frameworks on which the INPAG relies will be reviewed by the INPAG Secretariat at least as regularly as updates are made to the *IFRS for SMEs* Standard by the IASB to assess the implications for the INPAG.

This process for developing the INPAG through 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, or can an entire Section not be brought into the INPAG where it is not relevant in the NPO context?

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. This step also assesses whether an entire Section of the IFRS for SMEs Standard does not need to be brought into the INPAG where it is not relevant in the NPO context.

Is there an NPO-specific issue that warrants a change to the IFRS for SMEs Standard?

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 NPO General Purpose Financial Reports (GPFs) to obtain useful information for accountability and decision making; and
- (ii) Whether the financial reporting issue is widespread globally or has a pervasive impact on NPO GPFs in some regions and/or jurisdictions.

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;
- Differences in the nature of NPO accountability and stewardship relationships;

- 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.

Does an entire Section of the IFRS for SMEs Standard not need to be brought into the INPAG where it is not relevant in the NPO context?

The INPAG is a concise standalone document. There may be Sections of the *IFRS for SMEs* Standard that are clearly not relevant for NPOs as they relate to transactions and economic events and related recognition, measurement, presentation and disclosure principles that are only relevant for for-profit private sector entities. Where this is the case the INPAG Secretariat may determine that such Sections will not be brought into the INPAG.

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 terminology changes are required to ensure consistency.

If the consideration of Step 1 identifies an entire Section of the *IFRS for SMEs* Standard that is not relevant in the NPO context, then this Section does not need to be brought into the INPAG.

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 International Financial Reporting Standards® (IFRS Standards), and its conceptual framework for a NPO-specific solution, before examining International Public Sector Accounting Standards® (IPSAS) and its conceptual framework. IFRS Standards take hierarchical precedence over IPSAS as they have a greater conceptual similarity to the *IFRS for SMEs* Standard, which promotes the conceptual coherence of the INPAG. International frameworks are examined before jurisdictional-level standards 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.

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 modify 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, (b) the adequacy with which it has been dealt with in the existing Section of the *IFRS for SMEs* Standard, and (c) whether the extent of the changes required would make it more efficient to develop a new Section rather than making modifications to the existing Section.

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 modifying 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 modifying 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 modifying the existing Section of the *IFRS for SMEs* Standard for the INPAG, it is important to establish parameters for the extent of the modifications. Modifications would only be made to address the NPO-specific issue that warrants the modification. In determining appropriate modifications, the INPAG Secretariat will consider the following:

1. Modifications 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.

2. 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.
3. 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.
4. 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.
5. Modifications 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 modifying the existing Section of the *IFRS for SMEs* Standard for the INPAG, then the INPAG Secretariat looks first to IFRS Standards and then IPSAS for an NPO-specific solution.

In the event that IFRS Standards, IPSAS, 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 modified the existing Section of the *IFRS for SMEs* Standard for the INPAG, go to Step 4.

Step 4: Making NPO-specific terminology changes to the *IFRS for SMEs* Standard

The goal of this step is to identify changes in terminology to be applied throughout the IFRS for SMEs Standard for the INPAG.

In some cases, the terminology of a Section of the *IFRS for SMEs* Standard will require changes to introduce NPO-specific terminology for the INPAG.

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

- (i) The text the *IFRS for SMEs* Standard will be maintained as much as possible. Changes in terminology may be made to better reflect the NPO sector scope of the documents.
- (ii) Definitions in the *IFRS for SMEs* Standard that have no NPO sector context may be deleted.
- (iii) 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.
- (iv) Initial adoption and transitional provisions may differ to reflect NPO sector circumstances.

Definitions

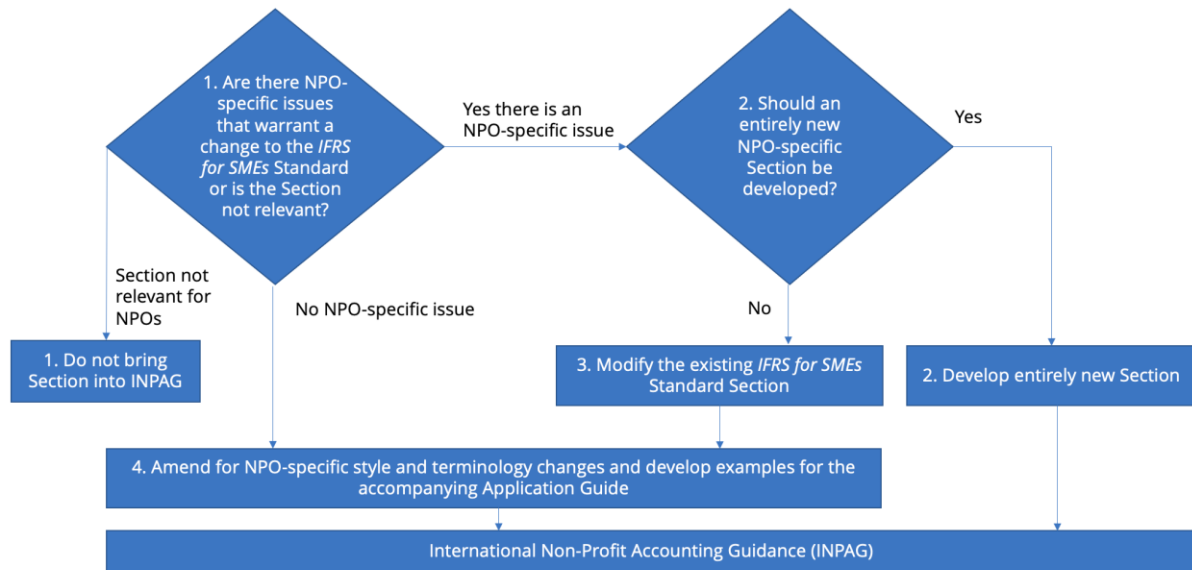
Change – any change where the original text of the *IFRS for SMEs* Standard is not directly brought into the INPAG.

Modification – a change made to an *IFRS for SMEs* Standard Section that impacts on the financial reporting guidance within that Section. Modifications could result in:

- (i) different recognition, measurement, presentation or disclosure principles compared to the original Section of the *IFRS for SMEs* Standard;
- (ii) a requirement that an NPO follow a specific requirement that is in accordance with the original *IFRS for SMEs* Standard's recognition, measurement, presentation or disclosure principles through the elimination of alternative options.
- (iii) The deletion of financial reporting guidance that is inappropriate in the NPO-sector context.

Terminology changes– a change in terminology in a Section of the *IFRS for SMEs* Standard where the underlying recognition, measurement, presentation or disclosure principles are not changed.

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

