

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED08-06

29 & 30 September 2022 – Hybrid

ED1 Significant Matters for Comment (SMCs)

Summary	This paper aims to finalise the SMCs for inclusion in ED1.
Purpose/Objective of the paper	To share the feedback on the draft SMCs provided to the TAG as part of the draft of ED1 and obtain input on the updated SMCs to be included in ED so that these can be finalised.
Other supporting items	None
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Actions for this meeting	<u>Advise</u> on the SMCs being proposed.

Technical Advisory Group

ED1 Significant matters for comment (SMCs)

1. Introduction

- 1.1 Significant matters for comment (SMCs) are intended to structure feedback from stakeholders to provide the TAG and the Secretariat with information that is helpful in developing the final guidance. The SMCs are aimed at areas where it would be useful to have feedback on:
- the extent to which proposal address NPO-specific issues;
 - the practical impact of the proposals;
 - other relevant information that should be considered; and
 - the diversity of views, particularly where advisory group members have differing views.
- 1.2 This paper outlines feedback on the SMCs proposed as part of the draft ED1 documents. It proposes amendments based on feedback to the SMCs as proposed and based on comments elsewhere on ED1.

2. Way Forward

- 2.1 There were 36 questions proposed in the draft ED grouped under 12 question subject areas. We asked for views on the number of questions and the impact that this might have on stakeholders. TAG members agreed that there was a large number of questions, but the view was that the questions were appropriate and there were none that TAG members would want to delete.
- 2.2 TAG members agreed that the number of questions does make it potentially demanding for respondents to read and answer. There were suggestions that the focus of the questions could be refined by providing a high-level summary of the drafting decision taken in each section, and then asking the respondents one general question, or a couple of specific questions, only. There was also feedback that it might be better to put the relevant questions at the end of each Section. Feedback from local consultations in Australia is that it is better to have the SMCs after each section. Secretariat therefore propose to have the questions at the end of each Section, with a single list at the end of the

document for those preparing comment letters where it might be easier for the questions to all be in one place.

- 2.3 Taking this approach would make clear to which Section each question relates. In the full list a Section reference has now been provided, as there was feedback that this might not always be obvious.
- 2.4 In relation to the specific questions, there was general widespread support for the types of questions being asked. A general point was made about consistency across the questions. Sometimes we say, “what would you change and why”, elsewhere we just say “why not”. The questions have been reviewed and amended where appropriate. For some questions it is useful to understand an alternative proposal, but for other it is useful to understand why stakeholders do not agree with the proposal being made.
- 2.5 You will note in TAGED08-08 that links have been provided to a selection of questions in the Summary, where it is useful to direct readers to the key questions related to the adaptations being proposed.
- 2.6 As a result of the feedback received on the draft of ED1, the Secretariat is proposing to add one additional question. The proposal is to add a new question (2g) that seeks feedback on whether funds set aside for the providers of contributed capital can be part of funds with restrictions or funds without restrictions. This question is not currently directly addressed and has emerged as a result of the feedback about ownership
- 2.7 There was feedback from one TAG member about whether quantitative questions should be included in the SMCs. The example given was - 'Overall, do you agree that there is need for this Guidance? On the scale of one to ten, with ten being strongly agree, how would you rate it usefulness?'. The Secretariat is of the view that these types of question are useful particularly for smaller stakeholders who either lack the capacity of capability for a more qualitative response to the key questions. The proposal is to develop a survey that uses quantitative questions such as the question proposed to complement the SMCs.

Question 1: What are TAG members' views on the use of a quantitative survey to complement the SMCs?

Question 2: What advice to TAG members have on the design of a quantitative survey?



- 2.8 There was specific feedback on a number of SMCs, which were predominantly drafting changes. Annex A sets out the feedback received and the proposed response.
- 2.9 Annex B lists the SMCs now proposed for inclusion in ED1.

Question 3: What feedback do TAG members have on the revised list of SMCs?

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Annex A – TAG feedback on Draft (July) ED1

SMC	Feedback	Response
1a	Will stakeholders understand what is meant by 'framing'	Amended to 'description'.
1a	Add – 'and why'	Amended.
1b	Is it better to ask whether changes are needed to make them more useful	Amended.
2a	Add - useful financial ahead of information	Amended.
2b	Qualitative characteristics is a standard setter term that may not be intuitive for many readers	Explain the term in the Overview. Consider adding to the glossary.
2e	Propose to lose the last sentence	To be discussed with the TAG as this might be useful to understand definitional confusion.
2h	Replace final part of the question with if not, why not	Agree and will adopt this approach in other questions too.
4a	Recommend clarifying what is being changed – ie. Baseline/original terminology in IFRS for SMEs?	From ' <i>IFRS for SMEs Accounting Standard</i> ' added.
4b	Replace balances with funds	Need to retain balances as this refers to the carrying value of assets and liabilities in the balance sheet. Have expanded the text to make this clear.
4c	Do we mean mandatory/option presentation/line item in terms of 'lead'	Changed to 'primary'.
5a	I would add into all questions "if not, what alternative do you suggest?"	Will look at the structure of all of the questions to take on board this point.
7a	Should not this be "funding" instead of 'investing'?	The word 'investing' has been raised by a PAG member, with an alternative proposal. To be discussed in TAGED-03.



11c	What is the plan for transition outside Narrative reporting? We would usually provide 2 years for any proposals – is this meant to be additional 2 years on top of normal transition period? Plus minor editorial change	We will consider transition arrangements in ED3, once we have a clearer view of the extent of the changes being proposed by INPAG.
11c	Replace 'why not' with 'what do you suggest instead'	Amended.
12a	We have not discussed the structure and content of the EDs as yet – see my comment in the ITC section above	Covered in TAGED08-04.
12b	I suggest including in other comments call outs referring assurance, regulatory, cost vs benefit considerations – in Australia we usually include these in General matters to comment	Examples of other types of comments added.

Annex B

Specific matters for comment

Question 1: Description of NPOs and users of INPAG (Section 1)

- a) Do you agree with the description of the broad characteristics? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?
- b) Taken together with the Preface, is it clear which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

Question 2 – Concepts and pervasive principles (Section 2)

- a) Do you agree with the range of stakeholders and the description of their needs? If not, what would you propose and why?
- b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?
- c) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?
- d) Do you agree with the inclusion of contributed capital as an element? If not, what would you propose and why? What type of contributed capital might an NPO have?
- e) Do you agree with the terms funds with restrictions and funds without restrictions? If not, what would you propose and why? What do you understand by these terms?
- f) Do you agree that net assets comprise contributed capital, funds with and without restrictions and any non-controlling interests? If not, what might be missing?
- g) Do you agree that funds set aside for the owners of contributed capital can be part of funds with restriction and funds without restrictions? If not, what would you propose and why?
- h) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?
- i) Do you agree that the provisions for 'undue cost and effort' used in IFRS for SMEs should be retained? If not, why not?

Question 3 – Principles to enable comparability of financial statements (Section 3)

- a) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?
- b) Do you agree that comparatives should be shown for all numbers on the face of the primary statements? If not, what do you propose?

Question 4 – Scope and presentation of the Statement of financial position (Section 4)

- a) Do you agree with the proposed changes to terminology from the IFRS for SMEs Accounting Standard? If not, what would you propose and why?
- b) Do you agree with the proposal that not all asset and liability balances are split between those with and without restrictions? If not, which balances should be split?



- c) Do you agree that the disclosure of share capital should be an additional rather than primary requirement? If not, why not?

Question 5 – Scope and presentation of the Statement of income and expenses (Section 5)

- a) Do you agree with the name of the primary statement to cover income and expenses? If not, why not?
- b) Do you agree that surplus and deficit is used instead of profit or loss? If not, why not?
- c) Do you agree that revenue and expenses are split between those with and without restrictions on the face of the primary statement? If not, what would you propose and why?
- d) Do you agree that NPOs should be able to choose whether to present either income or expenses first to get to a surplus or deficit? If not, what would you propose and why?

Question 6 – Scope and presentation of the Statement of changes in net assets (Section 6)

- a) Do you agree with the proposals that there is no OCI, but an expanded statement of changes in net assets that would allow an equivalent to the OCI being produced. If not, why not?
- b) Do you agree that funds are split between those with and without restrictions on the face of the primary statement? If not, what would you propose and why?

Question 7 – Scope and presentation of the Statement of cash flows (Section 7)

- a) Do you agree with the identification of cash donations and grants on the face of the statement? If not, what would you propose and why?
- b) Do you agree that donations or grants received for the purchase or creation of capital items should be treated as investing activities? If not, what would you propose and why?
- c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?

Question 8 – Principles underpinning the notes to the financial statements (Section 8)

- a) Do you agree that there are no NPO specific considerations for this Section? If not, what would you propose and why?

Question 9 – Approach to consolidated and separate financial statements (Section 9)

- a) Is the application guidance useful in applying the fundamental characteristics of faithful representation and relevance to consolidation? If not, what would be more useful?
- b) Do you agree with the use of the terms 'controlled entity' and 'beneficial interest' instead of 'subsidiary' and 'investment'? If not, what would you propose and why?
- c) Is the application guidance to apply the control principles helpful? If not, what would you propose and why?
- d) Do you agree that a rebuttable presumption relating to control is useful? *If not, why not?* If so, which conditions would be most common in thinking about control by NPOs?

Question 10 – Approach to accounting policies, construction of estimates and accounting for errors (Section 10)

- a) Do you agree that there are no NPO specific considerations for this Section? If not, what would you propose and why?

Question 11 – Scope and content of narrative reporting (Section 35)

- a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose and why?
- b) Do you agree with the scope of the minimum mandatory requirement, including sustainability reporting to be optional and the ability to exclude sensitive information without disclosing that this information has been excluded? If not, what content should be added or removed and why?
- c) Would a two year extended transition period for narrative reporting assist in overcoming any challenges? If not, what would you propose and why?

Question 12 – General comments (Preface)

- a) Are the proposals for the content of the three Exposure Drafts clear? What would be helpful in linking the Exposure Drafts?
- b) Is the structure of the Guidance helpful? If not, how could it be improved?
- c) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to the draft Guidance? If so, explain the rationale for any points you wish to make.