

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED08-xx

29 & 30 September 2022 – Hybrid

ED1 – Implementation Guidance

Summary	This paper summarises the key points raised by TAG and PAG members on the implementation guidelines.
Purpose/Objective of the paper	To set out the main issues raised in relation to the implementation guidelines and examples, the proposed response to the issues for discussion to enable the implementation guidance to be finalised.
Other supporting items	None
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Actions for this meeting	<p><u>Advise</u> on:</p> <ul style="list-style-type: none"> • The positioning of the financial statement templates • Suggestions of more detail on the financial statement templates • The examples presented

Technical Advisory Group

ED1 – Implementation Guidance

1. Introduction

- 1.1 This paper set out the main issues raised by the TAG and the PAG following their independent reviews of the Implementation guidance and illustrative examples. The paper sets out the proposed response to the points raised and identifies a number of points for further discussion. This is to enable the Implementation guidance to be finalised.

2. Examples

- 2.1 The Implementation guidance included a number of illustrative examples to demonstrate the application of the principles in the authoritative guidance. One member questioned the consistency of the analyses across all examples, suggesting that a consistent approach would allow better understandability. They noted that sometimes they were written from the perspective of the organisation, and sometimes not. Also sometimes the conclusion was stated up front, and other times the analysis came before the conclusion. While there are advantages in a consistent approach, presenting the examples in different ways could also help a broad range of users who may prefer alternative methods of demonstrating the application of the principles.

Question 1: What are TAG views on the presentation of the examples?

- 2.2 One TAG member noted that with respect to examples relating to the description of an NPO, examples had attracted diverse comments when the AASB was considering updating its not for profit definition (ED 291). The member noted that this may be because of interaction with existing case law. This is noted and we will look forward to feedback.
- 2.3 There were specific questions on the examples. This included in Section 1- Example 3, whether the word deprived translates to all jurisdictions and in Section 1 - Example 1, whether it was necessary to examine indicators if the

analysis of the characteristics clearly demonstrated that the entity could be described as an NPO. Amendments have been made.

- 2.4 One TAG member noted that there are more illustrative examples in AASB10 relating to consolidation, albeit focusing on public sector. The TAG member whether these could be perhaps adapted to NPOs if needed. The TAG member also questioned whether a consultation question should be added as to whether the Implementation guidance and Illustrative examples are helpful. There is currently no specific question on this part of the guidance, but it could be picked up in existing SMC 12c.

Question 2: Do TAG members consider that an additional question related to the Implementation guidance is needed?

3. Financial statements

Templates

- 3.1 There were a number of comments on the template financial statements including their location. A PAG member felt that the template financial statements would be better as an appendix to the authoritative guidance. There is merit in these being part of the authoritative guidance as they relate to the content of Sections 4-7. As a consequence it is proposed to move the template financial statements to the authoritative guidance as an Annex. This would be a departure from the *IFRS for SMEs* Accounting Standard where the financial statement templates are part of the non-authoritative material, if agreed.

Question 3: What are TAG members' views on whether the template financial statements should be an appendix to the authoritative guidance or part of the implementation guidance?

- 3.2 There were a number of detailed questions on what should be disclosed on the face of the template of the statement of income expenses. The following points were raised:
- Should there be a separate line for investment income?
 - Should it be made clear that other expenses includes direct taxes/income taxes?

- As the surplus or deficit on operating activities includes capital donations is the title appropriate?
- 3.3 On the statement of financial position the following questions were raised:
- Is it more likely that an NPO has a deferred tax asset or liability with an amendment to the template?
 - Should the terms 'sums owing and debts owed' be used to promote understandability?
 - Why is there no line for investments?
 - Does the term endowments translate internationally?
 - Endowments are shown separately in net assets on the balance sheet, should they be shown or required for this statements and the statement of changes in net assets?
- 3.4 With regards to the statement of cash flows there was a question as to whether the term 'investing activities' as a sub heading is appropriate for NPOs and whether it should be changed to 'Cash flows to preserve operating capability'. As a detailed point there was a question as to whether direct taxes should be shown.
- 3.5 No changes have been made by the Secretariat, as there is a desire not to overcomplicate the templates. References to endowments are being considered in ED08-03 General purpose financial reports.

Question 4: TAG views are sought on:

- i. Inclusion of lines relating to taxation;
- ii. The subtitle of 'surplus or loss on operating activities'
- iii. The use of the term 'investing activities'

Other points

- 3.6 TAG members also raised points about the numbering used in this section. This will be updated in the final editing.
- 3.7 A number of edits were made to the text based on feedback. This included adding a new factor to IG3.5a regarding the evaluation of the financial sustainability of the NPO when considering the materiality of comparative information. Additional text was added in IG3.7 that refers to an explanation of those areas where compliance with INPAG has not yet been achieved.

- 3.8 One TAG member asked if there should be a requirement to disclose why the specific performance measures used are selected and which are the most relevant (IG3.17). No change is proposed as the authoritative guidance requires disclosure of judgements that are most relevant to users understanding.

4. Narrative reporting

- 4.1 There were a number of comments relating to the disclosure of sensitive activities in paragraphs IG3.4 and IG3.5. TAG members questioned why there was no requirement to disclose that information had been omitted. This has been debated with the TAG, PAG and focus group on narrative reporting, and Secretariat's view is that disclosing that information has been omitted would at least partially negate the purpose of permitting non-disclosure of sensitive information. An SMC seeks respondent views on this.
- 4.2 A PAG member was also of the view that it should be made clear that non-disclosure of information must not be used to conceal deliberate or inadvertent illegal activity by an NPO. There will be occasions where an NPO in providing support or aid to individuals or groups in a jurisdiction, may find itself acting against the law of a jurisdiction. This could include, for example, supporting access or providing family planning or abortion services, assisting individuals looking to seek asylum, or engaging in direct action to protect the environment. It is not the intention that an NPO would use the exemption where it is engaged in dishonest actions such as fraud or bribery. On balance, the proposed text has not been included.
- 4.3 One TAG member raised a point about terminology used in IG35.17 relating to outputs and outcomes. They expressed concerns that this terminology has been deemed confusing by some who have sought to apply similar guidance in Australia and New Zealand. No change is proposed in order that views can be sought as part of the consultation on ED1.
- 4.4 One TAG member asked whether there should be more focus on how an NPO is funded, specifically whether it should be identified separately in the guidance in IG35.15. It is currently included as part of how an NPO works with other entities. The Secretariat considered the existing text adequate, particularly given the varied nature of NPOs and their funding arrangements.

- 4.5 A question was also raised as to whether financial metrics should be reconciled back to financial statement information where relevant. As the application guidance requires disclosure of any adjustments to financial statement information in producing financial statement analysis for narrative reporting additional text is not deemed necessary.

Question 5: Do TAG members have views on the points raised, in particular:

- I. The disclosure of sensitive activities
- II. The disclosure of funding arrangements
- III. The need for additional text relating to reconciliations

5. NPOs and the reporting entity

- 5.1 There were several comments relating to the guidance for NPOs. One TAG member recognised that many NPOs may benefit a very narrow group, focusing on a specific community. Additional wording was added to IG1.5 to make clear that the benefit provided to the public doesn't need to be to a broad public group provided that there is an objective of providing a benefit to the public and not private benefits..
- 5.2 One TAG member thought it may be helpful to provide a clear example of what constitutes 'no more than incidental' in IG1.6 to highlight when something is clearly happening as a minor consequence of providing a broader benefit to the public and when it is not. The examples already provided are intended to give an indication of how this should be approached, recognising that this will be a judgement based on individual circumstance.

Question 6: Do TAG members have any further comments on the Implementation guidance and illustrative examples?

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