



Technical Advisory Group Issue Paper

AGENDA ITEM: ED06-01
4 May 2022 – Online

Reporting NPO – Section 2 and related content

Summary	The paper sets out the key issues associated with the first draft of the text for the reporting entity to be included in Section 2, and associated documents.
Purpose/Objective of the paper	This paper provides TAG members with the emerging technical issues associated with Section 2 of the INPAG in relation to the reporting NPO that will form part of Exposure Draft, which is due to be published in late 2022. It highlights key areas where the INPAG Secretariat considers there may be outstanding technical considerations.
Other supporting items	N/A
Prepared by	Sarah Sheen
Actions for this meeting	<u>Advise</u> on the areas of Section 2 relating to the Reporting entity and associated documents where there may be outstanding technical considerations.

Technical Advisory Group

Reporting NPO – Section 2 and related content

1. Introduction

- 1.1 The report follows TAG’s initial consideration of the consultation response outcomes for the reporting NPO at its last meeting on 6 April 2022.
- 1.2 It focuses on the definition of a reporting entity and organisational structures. These definitions are proposed to be included in Section 2 of INPAG. Following the TAG advice on possible alternatives for control at its last meeting, further work is being carried out. The outcomes will form the basis of proposed text for Section 9 – Consolidated and separate financial statements and will be presented to a future TAG meeting.
- 1.3 As noted previously, 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 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, the INPAG may make a change to the IFRS for SMEs Standard.
- 1.4 The Sections that relate to the framing of the INPAG are some of those where the IFRS for SMEs Standard will be subject to the most extensive change. In order to assist TAG members in understanding where text from the IFRS for SMEs Standard has been incorporated directly or been subject to change, the following approach is being used:

Text colour	Description
Black	Original IFRS for SMEs Standard text
Red strikethrough	Deletion of text within original IFRS for SMEs Standard text
Green	Change of terminology only
Purple	Text originated from IFRS Standards
Blue	Original INPAG text
<u>Blue underlined</u>	Text originated from IPSAS Standards

- 1.5 Following the consideration of TAG’s views at its April meeting, the impact of the possibility of changes to IFRS for SMEs on the definition of control and the

commentary of the focus group the Secretariat has produced an early draft of the INPAG Guidance including:

- an extract from Section 2, Concepts and Pervasive Principles describing the reporting NPO and setting out how to identify and NPO where this is difficult,
- Application Guidance on the Reporting NPO and control (including Branches),
- Implementation Guidance focussing on different operating structures and accounting for branches and including illustrative examples,
- an early draft of the Basis of Conclusions (note that this document will then be updated by the consultation on the Exposure Draft).

As there is currently no text relating to the reporting entity in Section 2 of the IFRS for SMEs Standard, a table of differences to this Standard is not provided as a part of the papers.

- 1.6 There are no equivalent IFRS for SMEs paragraphs on the reporting entity, so all drafting is derived from or inspired by international and national guidance.

2. INPAG, Application Guidance and Implementation Guidance on the Reporting NPO and Control (including branches)

INPAG

Definition of the Reporting NPO

- 2.1 INPAG will include the definition of a reporting NPO, which will include:
- the description of the reporting NPO
 - the parent NPO
 - subsidiaries
 - consolidated and unconsolidated financial statements
- 2.2 The definition is consistent with the IASB Conceptual Framework and is drawn from the same conceptual basis. In feedback from the focus group, there was a concern that a reporting NPO need not be a legal entity. However, this can be a relatively common circumstance, for example, a reporting NPO, might be a part of an entity or be a combination of two or more entities and consolidated financial statements or group accounts themselves are a consolidation of at least two entities that are often two separate legal entities (but not in itself a legal entity). Therefore, this possibility needs to be covered with guidance provided.

Description of Control

- 2.3 Following the tentative decision of the IASB to align IFRS for SMEs with IFRS 10 in its forthcoming update, TAG agreed to conceptually move to IFRS 10 for the definition/description of control. The description of control is proposed to be based on IFRS 10 but also take account of IPSAS 35 to reflect the fact that returns may be non-financial rather than financial.

Question 1: Does the TAG agree with the inclusion of the definition of control based on IFRS10 in this section?

Identification of the Reporting NPO

- 2.4 The consultation paper focused on the difficulties of identifying the reporting entity especially where structures were informal or crossed boundaries. Drafting proposes a description of the characteristics of a reporting entity, (using a similar approach to the IPSASB Conceptual Framework) and consideration and of the information needs of users, (following the approach to the IASB Conceptual Framework).
- 2.5 This proposal was discussed with the focus group who indicated that a twofold approach might be more complex than is necessary and commented that the reporting NPO existed where there was a need to produce general purpose financial reports for users.
- 2.6 The Secretariat would argue that both are useful to identify a reporting NPO. To assist in the decision making in this difficult area, the IASB framework also reinforces the description of the characteristics and provides for more guidance for NPOs.
- 2.7 As proposed in the consultation paper, disclosures should be used to describe the reporting NPO where identification is difficult. Note that the IASB Conceptual Framework also suggests disclosure

Question 2: Does the TAG agree with the approach to the identification of the reporting NPO where difficulties arise and in particular the two-fold approach?

Application Guidance

- 2.8 Table 1 below presents a summary of the proposed drafting of the application guidance. It proposes to include additional guidance on how to identify a reporting NPO where difficulties arise that take account of differing operational structures. It also proposes to include application guidance for the identification of an internal branch where the activities of these branches are included in the

financial statements of the NPO. This would include guidance on the identification of internal branches and prescribes the accounting treatment. As more authoritative provisions on major decisions for reporting this has been drafted in the form of application guidance.

Table 1 – Application Guidance on Reporting NPO and Control (Including Accounting for Branches)

Topic - Reference	Scope and considerations	Inspiration for text
<p>Application Guidance Identification of the Reporting NPO Where Difficulties Exist (Paragraphs AG.1 to AG.8)</p>	<p>These paragraphs set out the difficulties that might be encountered when a reporting NPO doesn't align with an incorporated structure or a reporting structure which is a parent-subsidiary relationship. Paragraphs AG.1 to AG.8 provide guidance on how to apply the two approaches proposed in section 2.</p>	<p>Some of the Guidance is inspired by <i>Explanatory Guide A8 Financial Reporting by Not-For-Profit Entities: The Reporting Entity</i> (EG A8); New Zealand Accounting Standards Board, October 2014 and Statement of Accounting Concepts <i>Definition of the Reporting Entity</i>, Australian Accounting Standards Board, October 2021</p>
<p>Application Guidance: Accounting for Branches including indicators (Paragraphs AG.9 to AG.14) -</p>	<p>It covers:</p> <ul style="list-style-type: none"> • the identification and treatment of internal branches. • the treatment of branches that are required by legal or other regulatory provisions to be accounted for separately and including guidance that an NPO will need to consider its relationship with the separate reporting entities in these circumstances • indicators of branches are included to help to identify where such structures are a part of the reporting NPO. This is based on the approach in 	<p>This guidance was inspired by the treatment in the Charities SORP UK and by the <i>Explanatory Guide A8 Financial Reporting by Not-For-Profit Entities: The Reporting Entity</i> (EG A8); New Zealand Accounting</p>



Topic - Reference	Scope and considerations	Inspiration for text
	Charities SORP in the UK as a key source of Guidance. Note that this approach was supported by the focus group. <ul style="list-style-type: none"> the accounting requirements for internal branches 	Standards Board, October 2014

Question 3: Does that TAG agree that this is application guidance rather than implementation guidance. If so, is the scope of the application guidance appropriate?

Implementation Guidance

2.9 Table 2 below presents a summary of the proposed drafting for the Implementation Guidance for the description of the reporting NPO dealing with typical forms of transaction where more guidance might be necessary. To ensure that it is focussed on key elements, and to distinguish it from the material contained within the Application Guidance, the Implementation Guidance is structured in the form of (relatively) generic questions relating to typical structures and transactions, TAG's views are sought on this approach. See table 2:

Table 2 – Implementation Guidance on Reporting NPO and Control (Including Accounting for Branches)

Topic	Scope and considerations	Inspiration for Guidance/Examples
Operating Structures and Identifying the Reporting NPO	The Implementation Guidance considers the reporting for more difficult to identify operating structures of NPOs and considers the treatment for three types of these operating structures including: <ul style="list-style-type: none"> subscription based services NPOs established as separate entities for fundraising or other purposes (eg to manage risk) affiliated structures. Annex: Illustrative examples 1 to 3 demonstrate the accounting treatment for the operating structures listed above.	<i>Explanatory Guide A8 Financial Reporting by Not-For-Profit Entities: The Reporting Entity (EG A8)</i> ; New Zealand Accounting Standards Board, October 2014 and INPAG



Topic	Scope and considerations	Inspiration for Guidance/Examples
Internal Branches	This provides additional material to support decision making about the accounting treatment for internal branches ie demonstrating that a reporting entity should show a complete depiction of the transactions. It also describes an exceptional case where an internal branch might be a separate reporting entity and also provides guidance on the use of the indicators. Annex: Illustrative example 4 includes an example of the approach to the identification of internal branches.	Application guidance for the reporting entity
Reporting NPO and Control Not Relating to Voting Rights	Annex – Illustrative Example 5 Sets out the approach for an NPO and control when there are no voting rights based on IFRS 10/IPSAS 35	See commentary in scope and considerations column.

Question 4

- a) Does the implementation guidance add to the application guidance, or should some of the discussion be included as a part of the application guidance?
- b) Do TAG members agree that the implementation should take the form of generic questions?
- c) Do TAG members agree that the examples illustrate application of the principles?

Extract from the Basis of Conclusions

2.10 The Annex includes paragraphs for the Basis of Conclusions which set out the decision-making processes for the development of the paragraphs of section 2 for the reporting NPO and control including branches. These were based on the responses to the Consultation Paper, linking into other parts of section 2 and the development of other sections. It also sets out the rationale for the two-fold decision making process where there are difficulties in identifying the reporting NPO.

3. Content Drafting

3.1 As set out in paragraph 1.5, Annex 1 contains the current drafts of the guidance, basis for conclusions, application guidance and implementation guidance and examples. The TAG is invited to provide detailed comments on the draft in correspondence.



Question 5

Does the TAG have any key points of principle arising from the current drafting outside of the key issues discussed in section 2?

April 2022