



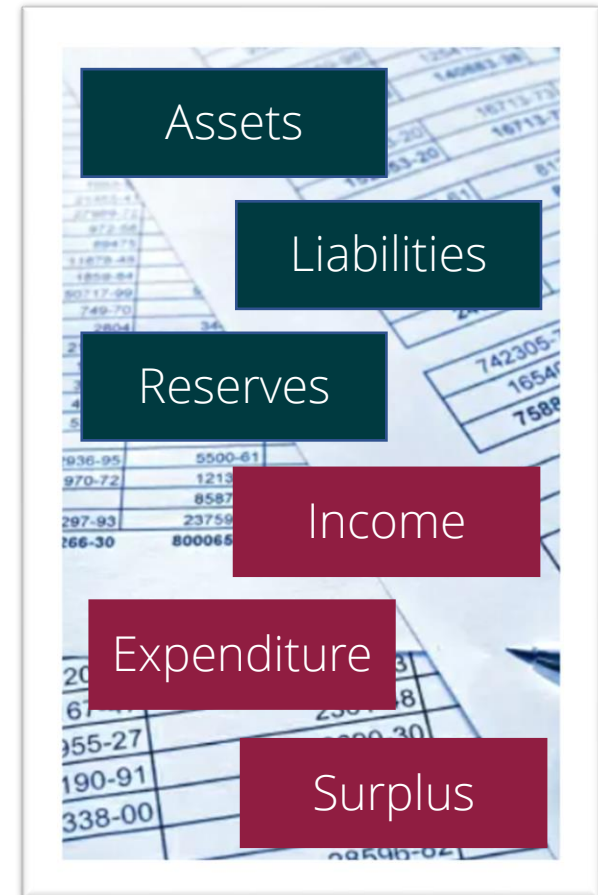
IFR4NPO Project

Consolidation of entities controlled by
an NPO

Focus group discussion
13 October 2022



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Agenda

Background

Explanation of INPAG

Status of Focus Group

Control and consolidation by profit-seeking groups

Discussion points

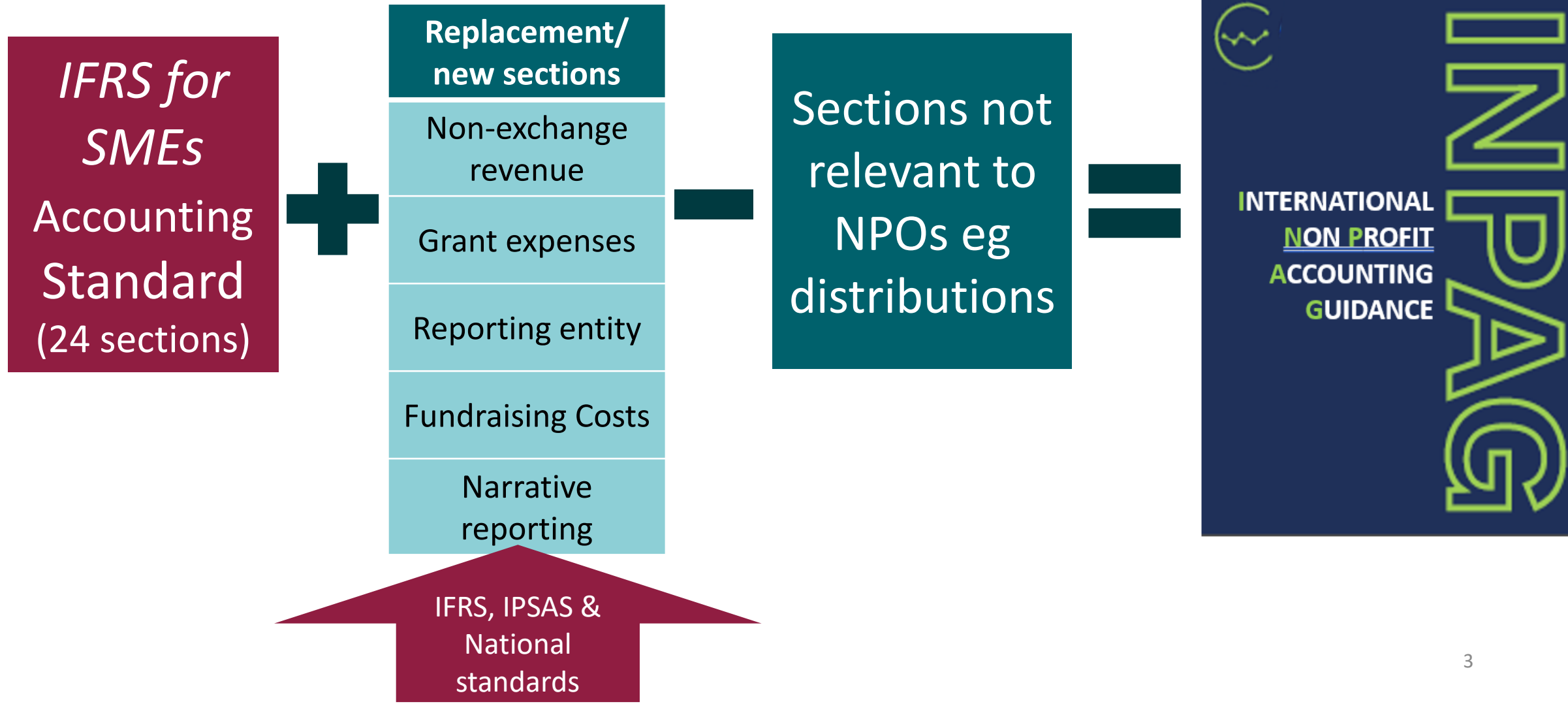
Control can be different for NPOs

Rebuttable presumption for control in NPOs

Benefits and challenges of consolidation for NPOs?



What is INPAG?



Status of this focus group

- Advisory, examples, perspectives,
- Deep dive on a specific issue
- Sounding board for proposals before presentation to Technical or Practitioner Advisory Groups
- Recorded but not published
- This focus group will not result in changes to ED1, but may influence subsequent drafting

For-profit
principles

Non-profit
principles

Polls

Discussion

Consolidation by profit-seeking groups

Consolidation is required for most private sector / for-profit company groups

The group reported on is defined on the basis of 'control'

Results of controlled entities are totalled

'Intra-group' transactions and balances are eliminated

The resulting reporting aids transparency and is arguably 'complete'

Control can be different for NPOs

Control is about having **power**: influencing behaviour for the **benefit** of a parent entity

The concepts of **power** and **benefit** operate differently for NPOs

Power over NPOs may be through governance arrangements or agreements, rarely ownership

Benefits could include 'supporting a parent NPO's objectives' rather than financial returns.

Draft INPAG rebuttable presumption

Control of NPOs can be **presumed to exist** through holding the majority of voting rights or through having:

- ✓ **power over the majority** of voting rights through agreement with other vote holders; or
- ✓ power to govern the **financial and operating policies** of the entity; or
- ✓ power to **appoint the majority** of the board or governing body; or
- ✓ power to **cast the majority of votes** at meetings of the governing body



Poll 1 on a rebuttable presumption

Is a 'rebuttable presumption' approach useful?

ie 'presume there is control if ...xyz'

- yes
- no
- not sure
- it depends on the presumption



Poll 2 Elements in a rebuttable presumption that would be useful for NPOs

What would be useful in a rebuttable presumption for presuming NPO control

- ability to appoint majority of board members/trustees,
- ability to set financial policies or priorities
- ability to determine programme activities
- ability to determine asset purchases
- majority ownership of shares
- other factor(s)



Talking point: assessing control

Focus group members are asked to discuss

- In a 'partnership' relationship between grantor and grantee, what factors might impact it being deemed as 'control' for these purposes.
- Are there NPO specific situations that would be difficult to assess for control e.g. being dependent on a single funder?
- Will the rebuttable presumption as currently drafted help NPOs? How could it be improved?

Benefits of consolidation for profit-seeking groups

Control provides a consistent basis for grouping

Consolidation adjustments provide a consistent metric

Together, they provide reporting which aids transparency and is arguably 'complete'

Talking point: benefits of consolidation

Focus group members are asked to discuss what they see as possible benefits of consolidation for NPOs

These might include

- consistent basis for reporting
- Understanding of controlled activities and resources
- picture of overall financial health
- may improve attractiveness for some funders

Some of these may be important to some users but not others



Talking point: challenges of consolidation

Focus group members are asked to consider possible challenges of consolidated financial statements for NPOs

- confusing or difficult to understand
- too much information
- stakeholder interest might be in relationships with other entities, rather than the consolidated whole
- may have adverse impacts under the localisation agenda



Poll 3: Should consolidation always happen?

Are there circumstances where you think it would be better not to produce consolidated financial statements, even if there is control?

- Yes
- No
- Not sure

Poll 4: factors which might be relevant

If we were to consider **not consolidating, even where control is presumed** what factors are important?

- transparency of activities
- understanding how the NPO provides public benefit
- understanding relationships with related NPOs
- completeness
- demonstrating overall financial health
- other factors