Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGED10-04
28 February 2023 – Online

Various sections –Updates and Basis for Conclusions

Summary	This paper provides TAG members with an update on the drafting of the Sections for the non-prioritised topics proposed at the TAG meeting on 10 January and the Basis for Conclusions.
Purpose/Objective of the paper	To allow TAG members to consider the updates following the discussion as the last meeting and the draft Basis for Conclusions.
Other supporting items	TAGED09-03, TAGED09-04 and TAGED09-05
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Actions for this meeting	**Comment and advise** on: (i) the updates to Section 11, 21and 26 (ii) the draft Basis for Conclusions

Technical Advisory Group

Various sections – Updates and Basis for Conclusions

1. Background

1.1 The TAG were presented with drafts of the following:

- Section 11 – *Financial instruments,*
- Section 21 – *Provisions and contingencies,*
- Section 22 – *Liabilities and equity,*
- Section 25 – *Borrowing costs*
- Section 26 – *Share based payments*
- Section 28 – *Employee benefits*
- Section 29 – *Income tax*
- Section 31 – *Hyperinflation*
- Section 32 – *Events after the balance sheet date*

1.2 Following discussions with the TAG it was decided that Section 22 – *Liabilities and equity* would be deferred until ED3, to enable the responses to ED1 on equity to be considered and factored into the proposed drafting.

1.3 It was agreed to make amendments to Section 11 – *Financial instruments* as outlined in section 2 below and to consider if any further updates were required to Section 21 – *Provisions and contingencies* following the drafting of Section 23 – *Revenue*. It was also proposed to share a draft of the Basis for Conclusions for these Sections.

2. Section 11 – Financial instruments

2.1 Section 11 has been modified to remove the references to grant prepayment assets and grant payment liabilities. It was previously proposed that these were added into Section 11 because the non-cash related grant prepayment assets and grant payment liabilities that did not meet the definition of a financial instrument were not specifically covered by this Section. TAG members felt that there was no need to add specific references to these assets and liabilities in this Section and that existing drafting was sufficient. The consensus view was that references to grant prepayment assets and grant payment liabilities arising from the transfer of non-cash resources were best made in Section 24A.

2.2 Whilst this has been removed from the main text, disclosure requirements have been retained in this Section along with illustrative examples for the Implementation Guidance. An extract from Section 11 that shows the amendments made are included in Annex A. The original full text can be found in TAG ED09-03.

Question 1: Having considered the revised drafting of Section 24A, are TAG members content that the updates to Section 11 – *Financial instruments* meets the agreed approach of only updating for editorial and alignment purposes?

3. Section 21 – *Provisions and contingencies*

3.1 The drafting of Section 23 – *Revenue* has been completed. As this largely follows the approach in the *IFRS for SMEs* Accounting Standard for both exchange and non-exchange transactions, the existing drafting of Section 21 – *Provisions and contingencies*, subject to the previous editorial and alignment adjustments, has not been further amended.

3.2 The Implementation Guidance has been updated to provide examples that are more relevant to an NPO. The example from the IFRS for SMEs Accounting Standard on warranties has been removed and replace with an example relating to onerous grant agreements. These are included in Annex B.

Question 2: Do TAG members agree that Section 21 – *Provisions and contingencies* captures the requirements of the Sections that have been drafted?

Question 3: Do TAG members agree that the example on warranties should be removed and that the proposed examples capture issues relevant to NPOs?

4. Section 26 – *Share-based payments*

4.1 There was an extensive discussion at the TAG meeting on 10th January regarding Section 26 – *Share-based payments.* A number of TAG members were of the view that this should be removed from INPAG as it was not likely to be relevant to NPOs and its inclusion could cause confusion around the expectations of the role of equity for those NPOs that have equity.

4.2 TAG members felt that in the unlikely scenario that an NPO has share-based payments, INPAG could include references to other guidance, which could be the *IFRS for SMEs* Accounting Standard. This would also serve to declutter the Guidance, particularly given that new NPO specific content is being added.

4.3 Having considered the views of TAG members it is proposed to retain a section on share-based payments, but to significantly reduce it, making clear that share-based payments are considered highly unlikely but should they occur, to look at the equivalent section in the *IFRS for SMES* Accounting Standard. The revised Section is included as Annex C.

Question 4: Do TAG members have any comments on the proposed approach to the drafting of Section 26 – *Share-based payments?*

5. Basis for Conclusions

5.1 As with other Sections in INPAG, it is proposed that there is a Basis for Conclusions that explains the rationale for the approach to the text taken. For a number of the Sections there are no major points to raise other than to remind readers of the Guidance that any changes are limited to editorial changes or to support alignment with other Sections. To avoid repetition it is proposed to add an additional paragraph to the Basis for Conclusions written for the Preface to cover this rationale and to cross refer to this as appropriate.

5.2 For Section 26 – *Share based payments* and Section 28 – *Employment benefits* there are some additional considerations specific to the nature of NPOs. These considerations were discussed at the last TAG meeting and are described in the draft Basis for Conclusions. Annex D contains the Basis for Conclusions.

Question 5: Do TAG members agree that a general paragraph relating to the non-prioritised topics that appears in the Preface is the best way forward?

Question 6: Do TAG members agree with the rationale for removing employee share based payments in Section 26?

Question 7: Do TAG members agree with the rationale for removing profit sharing and the links to share based payments from Section 28?

6. Next steps

6.1 These Sections and the related Basis for Conclusions and Implementation Guidance will be updated following the TAG discussions. An update will be provided as part of the full draft of ED 2 that is currently planned to be circulated by 10 March 2023.

February 2023

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Annex A

Extracts from Section 11 - *Financial Instruments*

Scope of this section

G11.1 Section 11 *Financial Instruments* deals with recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Part I of Section 11 applies to basic financial instruments and is relevant to all NPOs. Part II of Section 11 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Part II of Section 11 is not applicable. However, even NPOs with only basic financial instruments shall consider the scope of Part II of Section 11 to ensure they are exempt.

Part I of Section 11

Basic financial instruments

G11.7 An entity shall account for the following financial instruments as basic financial instruments in accordance with Part I of Section 11:

(a) cash;

(b) a debt instrument (such as an account, note or loan receivable or payable) that meets the conditions in paragraph G11.8 and/or paragraph G11.9;

(c) a commitment to receive a loan that:

(i) cannot be settled net in cash; and

(ii) when the commitment is executed, is expected to meet the conditions in paragraph G11.8.

(d) an investment in non-convertible preference shares and non-puttable **ordinary shares** ordinary shares or preference shares; and.

(e) issued financial guarantee contracts.

G11.8 A debt instrument that satisfies all of the conditions in (a)–(d) shall be accounted for in accordance with Part I of Section 11:

(a) returns to the holder (the lender/creditor) assessed in the currency in which the debt instrument is denominated are either:

(i) a fixed amount;

(ii) a fixed rate of return over the life of the instrument;

(iii) a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as SONIA); or

(iv) some combination of such fixed and variable rates, provided that both the fixed and variable rates are positive (for example, an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion).

For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.
(b) there is no contractual provision that could, by its terms, result in the holder (the lender/creditor) losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision. A party may pay or receive reasonable compensation on early termination of a contract and still meet this condition.
(c) contractual provisions that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the holder (the lender/creditor) to put it back to the issuer (ie to demand repayment) before maturity are not contingent on future events other than to protect:

> (i) the holder against a change in the credit risk of the issuer or the instrument (for example, defaults, credit downgrades or loan covenant violations) or a change in **control** of the issuer; or
> (ii) the holder or issuer against changes in relevant taxation or law.

(d) there are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).

G11.9 A debt instrument that does not meet all of the conditions in paragraph G11.8(a)–(d) shall nevertheless be accounted for in accordance with Part I of Section 11 if the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. A debt instrument with contractual terms that introduce exposure to unrelated risks or volatility—for example, changes in equity prices or commodity prices—is unlikely to meet this requirement. For this assessment, 'interest' includes reasonable compensation for the time value of money, credit risk, and other basic lending risks and costs—for example, liquidity risk, administrative costs associated with holding the instrument and lender's profit margin—consistent with a basic lending arrangement.

G11.10 Examples of debt instruments that would normally satisfy the conditions in paragraph G11.8(a)(iv) include:
(a) a bank loan that has a fixed interest rate for an initial period that then reverts to a quoted or observable variable interest rate after that period; and
(b) a bank loan with interest payable at a quoted or observable variable interest rate plus a fixed rate throughout the life of the loan, for example SONIA plus 200 basis points.

G11.11 An example of a debt instrument that would normally satisfy the conditions set out in paragraph G11.8(b)–(c) would be a bank loan that permits the borrower to terminate the arrangement early, even though the borrower may be required to pay a penalty to compensate the bank for its costs of the borrower terminating the arrangement early.

G11.12 Other examples of financial instruments that would normally satisfy the conditions in paragraph G11.8 are:

(a) trade accounts and notes receivable and payable, and loans from banks or other third parties.

~~(b) grant prepayment assets and grant payment liabilities as defined in G24A.26-G24A.29~~

(c)accounts payable in a foreign currency. However, any change in the account payable because of a change in the exchange rate is recognised in **surplus or deficit** as required by paragraph 30.10.

(d) loans to or from controlled entities or associates that are due on demand.

(e) a debt instrument that would become immediately receivable if the issuer defaults on an interest or principal payment (such a provision does not violate the conditions in paragraph G11.8).

Initial measurement

G11.16 When a financial asset or financial liability is recognised initially, ~~unless it is a grant prepayment asset or grant payment liability,~~ an NPO shall measure it at the transaction price (including **transaction costs** except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through surplus or deficit) unless the arrangement constitutes, in effect, a financing transaction for either the NPO (for a financial liability) or the counterparty (for a financial asset) to the arrangement. An arrangement constitutes a financing transaction if payment is deferred beyond normal business terms, for example, providing interest-free credit to a buyer for the sale of goods, or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. If the arrangement constitutes a financing transaction, the NPO shall measure the financial asset or financial liability at the **present value** of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition.

~~G11.17 For grant prepayment assets and grant payment liabilities that comprise resources other than cash, an NPO shall measure those resources initially at the total carrying amount of the resources which have been transferred or which the grant providing NPO is obligated to transfer. For grant prepayment assets and grant payment liabilities that relate to cash then the requirements of G11.16 apply.~~

Subsequent measurement

G11.17 At the end of each **reporting period**, an NPO shall measure financial instruments as follows, without any deduction for transaction costs the NPO may incur on sale or other disposal:

(a) debt instruments that meet the conditions in paragraph G11.7(b) shall be measured at **amortised cost** using the **effective interest method**. Paragraphs G11.19–G11.24 provide guidance on determining amortised cost using the effective interest method.

Debt instruments that are classified as current assets or current **liabilities** shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs G11.25–G11.42) unless the arrangement constitutes, in effect, a financing transaction (see paragraph G11.16).
(b) commitments to receive a loan that meet the conditions in paragraph G11.7(c) shall be measured at cost (which sometimes is nil) less impairment.
(c) investments in non-convertible preference shares and non-puttable ordinary or preference shares shall be measured as follows (Section 12 provides guidance on fair value):

(i) if the shares are publicly traded or their fair value can otherwise be measured reliably without undue cost or effort, the investment shall be measured at fair value with changes in fair value recognised in surplus or deficit; and
(ii) all other such investments shall be measured at cost less impairment.

(d) issued financial guarantee contracts are measured at the higher of:

(i) the expected **credit losses** measured in accordance with paragraphs G11.32–G11.42; and
(ii) the amount initially recognised, if any, amortised on a straightline basis over the life of the guarantee.

Impairment or uncollectability must be assessed for financial assets in (a), (b) and (c)(ii). Paragraphs G11.25–G11.42 provide guidance.

Amortised cost and effective interest method

G11.20 The **amortised cost of a financial asset or financial liability** at each **reporting date** is the net of the following amounts:
(a) the amount at which the financial asset or financial liability is measured at initial recognition;
(b) minus any repayments of the principal;
(c) plus or minus the cumulative **amortisation** using the effective interest method of any difference between the amount at initial recognition and the maturity amount;
(d) minus, in the case of a financial asset, any reduction (directly or through the use of an allowance account) for impairment or uncollectability.

Financial assets and financial liabilities that have no stated interest rate, that do not relate to an arrangement that constitutes a financing transaction and that are classified as current assets or current liabilities are initially measured at an undiscounted amount in accordance with paragraph G11.16 ~~or the total carrying amount of the resources which have been transferred or which the grant providing NPO is obligated to transfer in accordance with G11.17.~~ Consequently, (c) does not apply to them.

Disclosures

G11.49 The following disclosures make reference to disclosures for financial liabilities measured at fair value through surplus or deficit. Entities that have only basic financial instruments (and therefore do not apply Part II of Section 11) will not have any financial liabilities measured at fair value through surplus or deficit and hence will not need to provide such disclosures.

Disclosure of accounting policies for financial instruments

G11.50 In accordance with paragraph G8.5, an NPO shall disclose material accounting policy information. Information about the **measurement basis** (or bases) for financial instruments used in preparing the financial statements is expected to be material accounting policy information.

Statement of Financial Position—categories of financial assets and financial liabilities

G11.52 An NPO shall disclose the carrying amounts of each of the following categories of financial assets and financial liabilities at the reporting date, in total, either in the Statement of Financial Position or in the notes:

(a) financial assets measured at fair value through surplus or deficit (paragraph G11.18(c)(i) and paragraphs G11.65–G11.66);

(b) financial assets that are debt instruments measured at amortised cost (paragraph G11.18(a));

~~(c) grant prepayment assets and grant payment liabilities measured in accordance with G11.18~~

(d) financial assets that are equity instruments measured at cost less impairment (paragraph G11.18(c)(ii) and paragraphs G11.65–G11.66);

(e) financial liabilities measured at fair value through surplus or deficit (paragraphs G11.65–G11.66);

(f) financial liabilities measured at amortised cost (paragraph G11.18(a)); and

(g) loan commitments measured at cost less impairment (paragraph G11.18(b)); and.

(h) issued financial guarantee contracts (paragraph G11.18(d)).

Annex B

Implementation Guidance Section 21 - *Provisions and Contingencies*

IG21.1 Where an NPO has a present obligation that arises from a past obligating event, then it may need to raise a provision. Provisions may be required for a number of reasons. This includes the consequences of decisions made by an NPO that have not yet been implemented, such as staff redundancies or onerous contracts.

IG21.2 An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

IG21.3 Where an NPO has an onerous contract a provision will need to be made for the unavoidable costs as outlined in IG21.1. Such contracts may exist where an NPO has a grant agreement paid in a currency other than the NPO's functional currency and the operation of currency movements over the period of the grant agreement require the NPO to provide services that cost in excess of the amount payable under the grant agreement. In such circumstances then a provision for an onerous contract will need to be made.

Illustrative examples

All of the NPOs in the examples ~~in this appendix~~ have 31 December as their reporting date. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets; this aspect is not dealt with in the examples. References to 'best estimate' are to the present value amount, when the effect of the time value of money is material.

Example 1 Future operating losses

An NPO determines that it is probable that a segment of its operations will incur future operating losses for several years.

There is no present obligation as a result of a past obligating event - there is no past event that obliges the NPO to pay out resources.

Conclusion—the NPO does not recognise a provision for future operating losses. Expected future losses do not meet the definition of a liability. The expectation of future operating losses may be an indicator that one or more assets are impaired—see Section 27 *Impairment of Assets*.

Example 2 Onerous contracts

An NPO may be contractually required under an operating lease to make payments to lease an asset for which it no longer has any use.

There is a present obligation as a result of a past obligating event—the NPO is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion—if an NPO has a contract that is onerous, the NPO recognises and measures the present obligation under the contract as a provision.

Example 3 Onerous grant agreement

An NPO may be contractually required under a grant agreement to construct 10 water wells for local communities in a nominated jurisdiction. The funds for the construction costs will be provided by the grantor based on the exchange rate at the date that the agreement was signed. The exchange rate changes between the date of signing the agreement and the date of commencement of the construction work, such that the amount in the local currency is no longer sufficient to cover the costs of construction.

There is a present obligation as a result of a past obligating event—the NPO is contractually required to pay out resources for which it will not receive commensurate benefits.

Conclusion—if an NPO has a contract that is onerous, the NPO recognises and measures the present obligation under the contract as a provision.

~~**Example 3 Warranties**~~

~~21A.4 A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale, the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On the basis of experience, it is probable (ie more likely than not) that there will be some claims under the warranties.~~

~~Present obligation as a result of a past obligating event—the obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.~~

~~An outflow of resources embodying economic benefits in settlement—probable for the warranties as a whole.~~

~~Conclusion—the entity recognises a provision for the best estimate of the costs of making good under the warranty products sold before the reporting date.~~

~~Illustration of calculations:~~

~~In 20X0, goods are sold for CU1,000,000. Experience indicates that 90 per cent of products sold require no warranty repairs; 6 per cent of products sold require minor repairs costing 30 per cent of the sale price; and 4 per cent of products sold require major repairs or~~

~~replacement costing 70 per cent of sale price. Consequently, estimated warranty costs are:~~

~~CU1,000,000 × 90% × 0~~	~~= CU0~~
~~CU1,000,000 × 6% × 30%~~	~~= CU18,000~~
~~CU1,000,000 × 4% × 70%~~	~~= CU28,000~~
~~Total~~	~~= CU46,000~~

~~The expenditures for warranty repairs and replacements for products sold in 20X0 are expected to be made 60 per cent in 20X1, 30 per cent in 20X2 and 10 per cent in 20X3, in each case at the end of the period. Because the estimated cash flows already reflect the probabilities of the cash outflows, and assuming there are no other risks or uncertainties that must be reflected, to determine the present value of those cash flows the entity uses a 'risk-free' discount rate based on government bonds with the same term as the expected cash outflows (6 per cent for one-year bonds and 7 per cent for two-year and three-year bonds). Calculation of the present value, at the end of 20X0, of the estimated cash flows related to the warranties for products sold in 20X0 is as follows:~~

~~Year~~		~~Expected cash payments (CU)~~	~~Discount rate~~	~~Discount factor~~	~~Present value (CU)~~
~~1~~	~~60% × CU46,000~~	~~27,600~~	~~6%~~	~~0.9434 (at 6% for 1 year)~~	~~26,038~~
~~2~~	~~30% × CU46,000~~	~~13,800~~	~~7%~~	~~0.8734 (at 7% for 2 years)~~	~~12,053~~
~~3~~	~~10% × CU46,000~~	~~4,600~~	~~7%~~	~~0.8163 (at 7% for 3 years)~~	~~3,755~~
~~Total~~					~~41,846~~

~~The entity will recognise a warranty obligation of CU41,846 at the end of 20X0 for products sold in 20X0.~~

Example 4 Closure of a division—no implementation before end of reporting period

21A.6 On 12 December 20X0 the ~~board~~ governing body of an NPO decided to close down its operations in a specific geographic area ~~a division~~. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event—there has been no obligating event, and so there is no obligation.

Conclusion—the NPO does not recognise a provision.

Example 5 Closure of a division—communication and implementation before end of reporting period

21A.7 On 12 December 20X0 the ~~board~~ governing body of an NPO decided to close its operations in a specific geographic area ~~a division making a particular product~~. On 20 December 20X0 a detailed plan for closing the ~~division~~ operations was agreed by the ~~board~~ governing body, letters were sent to service beneficiaries warning them ~~to seek an alternative source of supply~~ that services would cease and they should seek alternatives and redundancy notices were sent to the staff of the ~~division~~ operations.

Present obligation as a result of a past obligating event—the obligating event is the communication of the decision to the service beneficiaries and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the ~~division~~ operations will be closed.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—the NPO recognises a provision at 31 December 20X0 for the best estimate of the costs that would be incurred to close the ~~division~~ operations.

Example 6 Staff retraining as a result of changes in ~~the income tax system~~ regulation

21A.8 The government introduces changes to the ~~income tax system~~ regulation of NPOs. As a result of those changes, an NPO ~~in the financial services sector~~ will need to retrain a large proportion of its ~~administrative and sales~~ workforce in order to ensure continued compliance with ~~tax~~ regulations. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event—the ~~tax law~~ regulatory change does not impose an obligation on an NPO to do any retraining. An obligating event for recognising a provision (the retraining itself) has not taken place.

Conclusion—the NPO does not recognise a provision.

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Example 7 A court case

21A.9 A service beneficiary has sued NPO X, seeking damages for injury the service beneficiary allegedly sustained from ~~using~~ a service provided by NPO X. NPO X disputes liability on grounds that the service beneficiary did not declare required information relating to the provision of the services. Up to the date the ~~board~~ governing body authorised the financial statements for the year to 31 December 20X1 for issue, the NPO's lawyers advise that it is probable that the NPO will not be found liable. However, when the NPO prepares the financial statements for the year to 31 December 20X2, its lawyers advise that, owing to developments in the case, it is now probable that the NPO will be found liable:

(a) at 31 December 20X1

Present obligation as a result of a past obligating event—on the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion—no provision is recognised. The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote.

(b) at 31 December 20X2

Present obligation as a result of a past obligating event—on the basis of the evidence available, there is a present obligation. The obligating event is the provision of services to the service beneficiary.

An outflow of resources embodying economic benefits in settlement—probable.

Conclusion—a provision is recognised at the best estimate of the amount to settle the obligation, and the expense is recognised in surplus or deficit. It is not a correction of an error in 20X1 because, on the basis of the evidence available when the 20X1 financial statements were approved, a provision should not have been recognised at that time.

Annex C

Section 26 - *Share-based payments*

Scope of this section

G26.1 This Section specifies the guidance to be used in the accounting for all **share-based payment transactions** including those that are equity or cash-settled or those in which the terms of the arrangement provide a choice of whether the NPO settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.

G26.2 NPOs are not expected to have share-based payments. The broad characteristics of an NPO require it to be working for public benefit and not to generate returns for equity holders. While equity may exist in some NPOs, the role of equity is therefore expected to differ from private sector organisations. The existence of share-based payments may raise questions as to whether an entity is an NPO.

G26.3 The existence of share-based payments is considered to be so rare that guidance is not included as part of INPAG.

G26.4 In the very exceptional circumstances where an NPO has share-based payments it is required to follow Section 26 of the *IFRS for SMEs* Accounting Standard.

G26.5 ~~A share-based payment transaction may be settled by another group entity of a group of which the NPO is the controlling NPO (or a shareholder of any **group** such entity) on behalf of the NPO receiving the goods or services. This Section also applies~~ Share based payments may be relevant to an NPO that:

(a) receives goods or services when another entity in the same NPO controlled group (or a shareholder of any ~~group~~ such entity) has the obligation to settle the share-based payment transaction; or

(b) has an obligation to settle a share-based payment transaction when another entity in the same NPO controlled group receives the goods or services

unless the transaction is clearly for a purpose other than the payment for goods or services supplied to the entity receiving them.

~~G26.3 In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this Section applies (see paragraph G26.17).~~

G26.6 ~~This Section does~~ Share based payments not apply to transactions in which an entity acquires goods as part of the net assets acquired in:

(a) a **business combination** as defined in Section 19 *Business Combinations and Goodwill*;

(b) a combination of entities or **businesses** under common **control** as described in paragraph 19.2; or

(c) the contribution of a business on the formation of a **jointly controlled entity** as defined in Section 15 *Joint Arrangements*.

~~Equity instruments granted to employees of the **acquiree** in their capacity as employees (for example, in return for continued service) are within the scope of this section. Similarly,~~ The cancellation, replacement or other modification of **share-based payment arrangements** because of a business combination or other equity restructuring shall be accounted for in accordance with this Section.

~~G26.5 This Section uses the term fair value in a way that differs in some respects from the definition of fair value in the Glossary. Therefore, when applying this section, an NPO shall apply the definition of fair value in paragraph G26.6 and measure fair value in accordance with this section, not Section 12 *Fair Value Measurement*.~~

~~G26.6 For the purpose of this Section, fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.~~

~~26.2 **Cash-settled share-based payment transactions** include share appreciation rights. For example, an entity might grant share appreciation rights to employees as part of their remuneration package, whereby the employees will become entitled to a future cash payment (instead of an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Or an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option.~~

~~Recognition~~

~~G26.7 An NPO shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The NPO shall recognise a corresponding increase in equity if the goods or services were received in an **equity-settled share-based payment transaction** or a **liability** if the goods or services were acquired in a cash-settled share-based payment transaction.~~

~~G26.8 When the goods or services received or acquired in a share-based payment transaction do not qualify for **recognition** as assets, the NPO shall recognise them as **expenses**.~~

~~Recognition when there are vesting conditions~~

~~26.5 If the share-based payments granted to employees vest immediately, the employee is not required to complete a specified period of service before becoming unconditionally entitled to those share-based payments. In the absence of evidence to the contrary, the entity shall presume that services rendered by the employee as consideration for the share-based payments have been received. In this case, on the **grant date** the entity shall recognise the services received in full, with a corresponding increase in equity or liabilities.~~

~~26.6 If the share-based payments do not vest until the employee completes a specified period of service, the entity shall presume that the services to be rendered by the employee as consideration for those share-based payments will be received in the future, during the **vesting period**. The entity shall account for those services as they are rendered by the employee during the vesting period, with a corresponding increase in equity or liabilities.~~[5]

~~Measurement of equity-settled share-based payment transactions~~

~~Measurement principle~~

~~G26.9 For equity-settled share-based payment transactions, an NPO shall measure the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the NPO cannot estimate reliably the fair value of the goods or services received, the NPO shall measure their value, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. To apply this requirement to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received.~~

~~G26.10 For transactions with employees (including others providing similar services), the fair value of the equity instruments shall be measured at the grant date. For transactions with parties other than employees, The measurement date is the date when the NPO obtains the goods or the counterparty renders service.~~

~~26.9 A grant of equity instruments might be conditional on employees satisfying specified **vesting conditions** related to service or performance. An example of a **service condition** is when a grant of shares or share options to an employee is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of **performance conditions** are when a grant of shares or share options is conditional on a specified period of service and on the entity achieving a specified growth in profit (a non-market~~

5 ~~In the remainder of this section, all references to employees also include others providing similar services.~~

~~vesting condition) or a specified increase in the entity's share price (a **market vesting condition**). Vesting conditions are accounted for as follows:~~

~~(a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date.~~

~~(b) all market vesting conditions and conditions that are not vesting conditions (non-vesting conditions) shall be taken into account when estimating the fair value of the shares, share options or other equity instruments at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market vesting or non-vesting condition, provided that all other vesting conditions are satisfied.~~

~~Shares~~

~~G26.11 An NPO shall measure the fair value of shares (and the related goods or services received) using the following three-tier measurement hierarchy:~~

~~(a) if an observable market price is available for the equity instruments granted, use that price.~~

~~(b) if an observable market price is not available, measure the fair value of equity instruments granted using NPO-specific observable market data such as:~~

~~(i) a recent transaction in the NPOs shares; or~~

~~(ii) a recent independent fair valuation of the NPO or its principal assets.~~

~~(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is **impracticable**, indirectly measure the fair value of the shares using a valuation method that uses market data to the greatest extent practicable to estimate what the price of those equity instruments would be on the grant date in an arm's length transaction between knowledgeable, willing parties. The NPOs directors should use their judgement to apply the most appropriate valuation method to determine fair value. Any valuation method used shall be consistent with generally accepted valuation methodologies for valuing equity instruments.~~

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~~Share options and equity-settled share appreciation rights~~

~~26.11 An entity shall measure the fair value of share options and equity-settled share appreciation rights (and the related goods or services received) using the following three-tier measurement hierarchy:~~

~~(a) if an observable market price is available for the equity instruments granted, use that price.~~

~~(b) if an observable market price is not available, measure the fair value of share options and share appreciation rights granted using entity-specific observable market data such as (a) for a recent transaction in the share options.~~

~~(c) if an observable market price is not available and obtaining a reliable measurement of fair value under (b) is impracticable, indirectly measure the fair value of share options or share appreciation rights using an option pricing model. The inputs for the model (such as the weighted average share price, exercise price, expected volatility, option life, expected dividends and the risk-free interest rate) shall use market data to the greatest extent possible. Paragraph 26.10 provides guidance on determining the fair value of the shares used in determining the weighted average share price. The entity shall derive an estimate of expected volatility consistent with the valuation methodology used to determine the fair value of the shares.~~

~~Modifications to the terms and conditions on which equity instruments were granted~~

~~26.12 An NPO might modify the terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition. Alternatively an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example, by increasing the vesting period or adding a performance condition. The NPO shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:~~

~~(a) if the modification increases the fair value of the equity instruments granted (or increases the number of equity instruments granted) measured immediately before and after the modification, the NPO shall include the incremental fair value granted. in the measurement of the amount recognised for services received as consideration for the equity instruments granted. The incremental fair value granted is the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the modification occurs during the vesting period, the incremental fair value granted is included in the measurement of the amount recognised for services received over the period from the modification date until the date when the modified equity instruments vest, in addition to the amount~~

~~based on the grant date fair value of the original equity instruments, which is recognised over the remainder of the original vesting period.~~

~~(b) if the modification reduces the total fair value of the share-based payment, or apparently is not otherwise beneficial to the employee, the NPO shall nevertheless continue to account for the services received as consideration for the equity instruments granted as if that modification had not occurred.~~

~~The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by Reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the NPO obtains the goods or the counterparty renders service.~~

~~Cancellations and settlements~~

~~G26.13 An NPO shall account for a cancellation or settlement of an equity-settled share-based payment award as an acceleration of vesting, and therefore shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.~~

~~Cash-settled share-based payment transactions~~

~~G26.14 For cash-settled share-based payment transactions, an NPO shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the NPO shall remeasure the fair value of the liability at each **reporting date** and at the date of settlement, with any changes in fair value recognised in **surplus or deficit** for the period.~~

~~G26.15 A cash-settled share-based payment transaction might be conditional on satisfying specified vesting conditions. Vesting conditions are accounted for as follows:~~

~~(a) all vesting conditions related to employee service or to a non-market performance condition shall be taken into account when estimating the number of awards that are expected to vest and subsequently adjusting the number of awards included in the measurement of the liability arising from the transaction. The NPO shall initially recognise an amount for the goods or services received during the vesting period based on the number of awards that are expected to vest. Subsequently, the NPO shall revise that estimate if new information indicates that the number of awards expected to vest differs from previous estimates. On the vesting date, the NPO shall revise the estimate to equal the number of awards that ultimately vested. Vesting conditions related to employee service and a non-market performance condition shall not be taken into account~~

~~when estimating the fair value of the cash-settled share-based payment at the measurement date.~~

~~(b) all market conditions and non-vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value of the liability at the end of each reporting period and at the date of settlement.~~

~~Share-based payment transactions with cash alternatives~~

~~G26.16 Some share-based payment transactions give either the NPO or the counterparty a choice of settling the transaction in cash (or other assets) or by transfer of equity instruments. In such a case, the NPO shall account for the transaction as a cash-settled share-based payment transaction unless:~~

~~(a) the NPO has a past practice of settling by issuing equity instruments;~~

~~(b) the option has no commercial substance because the cash settlement amount bears no relationship to, and is likely to be lower in value than, the fair value of the equity instrument; or.~~

~~(c) the choice of settlement relates only to a net settlement feature (see paragraphs 26.15A–26.15C).~~

~~In circumstances (a) and (b), the NPO shall account for the transaction as an equity-settled share-based payment transaction in accordance with paragraphs G26.9–G26.13.~~

~~Share-based payment transactions with a net settlement feature for withholding tax obligations~~

~~26.15A Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. A share-based payment arrangement has a net settlement feature when the terms of the arrangement permit or require an entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment.~~

~~26.15B As an exception to the requirements in paragraph 26.15, the transaction described in paragraph 26.15A shall be classified in its entirety as an equity-settled share-based payment transaction if:~~

~~(a) it would have been so classified in the absence of the net settlement feature; and~~

~~(b) there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.~~

~~An entity applying this paragraph shall account for the withholding of shares to fund payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment as a deduction from equity except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.~~

~~26.15C Paragraph 26.15B does not apply to any equity instruments that the entity withholds in excess of the monetary value of the employee's tax obligation associated with the share-based payment. Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.~~

~~Group plans~~

~~26.16 If a share-based payment award is granted by an entity to the employees of one or more group entities, and the group presents **consolidated financial statements** using either the *IFRS for SMEs* Accounting Standard or **full IFRS Accounting Standards**, the group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3–26.15C, to measure the share-based payment expense on the basis of a reasonable allocation of the expense for the group.~~

~~Unidentifiable goods or services~~

~~G26.17 If the identifiable consideration received appears to be less than the fair value of the equity instruments granted or the liability incurred, this situation typically indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received. For example, some jurisdictions have programmes by which **capital contributors** (such as employees) are able to acquire equity without providing goods or services that can be specifically identified (or by providing goods or services that are clearly less than the fair value of the equity instruments granted). This indicates that other consideration has been or will be received (such as past or future employee services). The NPO shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) measured at the grant date. For cash-settled transactions, the liability shall be remeasured at the end of each **reporting period** until it is settled in accordance with paragraph G26.14.~~

~~Disclosures~~

~~G26.18 An NPO shall disclose the following information about the nature and extent of share-based payment arrangements that existed during the period:~~

~~(a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (for example, whether in cash or equity). An NPO with substantially similar types of share-based payment arrangements may aggregate this information.~~

~~(b) the number and weighted average exercise prices of share options for each of the following groups of options:~~

~~(i) outstanding at the beginning of the period;~~

~~(ii) granted during the period;~~

~~(iii) forfeited during the period;~~

~~(iv) exercised during the period;~~

~~(v) expired during the period;~~

~~(vi) outstanding at the end of the period; and~~

~~(vii) exercisable at the end of the period.~~

~~G26.19 For equity-settled share-based payment arrangements, an NPO shall disclose information about how it measured the fair value of goods or services received or the value of the equity instruments granted. If a valuation methodology was used, the entity shall disclose the method and its reason for choosing it.~~

~~G26.20 For cash-settled share-based payment arrangements, an NPO shall disclose information about how the liability was measured.~~

~~G26.21 For share-based payment arrangements that were modified during the period, an NPO shall disclose an explanation of those modifications.~~

~~26.22 If the entity is part of a group share-based payment plan, and it measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).~~

~~G26.22 An NPO shall disclose the following information about the effect of share-based payment transactions on the NPO's surplus or deficit for the period and on its **financial position**:~~

~~(a) the total expense recognised in surplus or deficit for the period; and~~

~~(b) the total **carrying amount** at the end of the period for liabilities arising from share-based payment transactions.~~

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Annex D

Basis for Conclusions

Preface (consequential amendment)

BCP.xx The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. A list of 10 topics was prioritised for inclusion, with the remained to be updated only for terminology changes, alignment with other Sections or consequential changes arising from amendments to the other Sections. This Basis for Conclusions identifies which Sections have not been fully reviewed and the extent to which they have been updated.

Section 11 – Financial instruments

BC11.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Financial instruments was not included as a prioritised topic.

BC11.2 There were no significant issues arising from the review of this Section. Other than terminology, changes made reflect alignment with other INPAG Sections.

BC11.3 With the changes made to the scope of the financial statements in INPAG compared to the *IFRS for SMEs* Accounting Standard, particularly regarding the location of fair value adjustments, Section 11 has been updated to provide guidance on where these should appear. The proposed change reflects the intent on how the Statement of Income and Expenses and the Statement of Changes in Net Assets are used.

BC11.4 It is proposed to retain the general requirements of the *IFRS for SMEs* Accounting Standard, in terms of which items appear in other comprehensive income until such time as this Section is fully reviewed. INPAG therefore proposes that in subsequently measuring a financial instrument, generally changes in the fair value are required to be recognised through surplus or deficit.

BC11.5 With regard to hedging instruments in Part 2 of Section 11, in line with BC11.3, the Section has been updated to require that changes in the fair value of hedging instruments are recognised in the Statement of Changes in Net Assets until the instrument is discontinued. At this point any gains or losses are reclassified to surplus or deficit. This proposal reflects discussions by the TAG on which items appear in which financial statement.

BC11.6 Consideration was given to whether additional guidance on grant prepayment assets and grant payment liabilities defined in Section 24A *Expenditure on grants, donations and similar transfers* was needed in this Section. The TAG was of the view that the guidance in Section 11 was sufficient and that there was no need for additional guidance here. It's advice was to keep the guidance in Section 24A. Section 11 does therefore not refer to grant prepayment assets or grant payment liabilities except with respect to disclosure requirements, where Section 11 clarifies that where these exist, they should be disclosed separately.

[BC11.7 Examples included in the Implementation Guidance have been expanded to cover financial instruments that might arise from grant payment transactions.]

Section 21 – Provisions and contingencies

BC21.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Provisions and contingencies was not included as a prioritised topic. No major editorial changes are proposed for provisions and contingencies, with minor changes to terminology.

BC21.2 Consideration has been given to whether changes are required as a consequence of the development of additional guidance on grants and donations. To date no consequential amendments have been identified.

BC21.3 Whilst no changes are proposed to the core text the illustrative examples have been amended to be more relevant to NPOs.

Section 25 – Borrowing costs

BC25.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Borrowing costs was not included as a prioritised topic. No major editorial changes are proposed for borrowing costs, with minor changes to terminology.

Section 26 – Share based payments

BC26.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Share based payments was not included as a prioritised topic.

BC26.2 In reviewing the *IFRS for SMEs* Accounting Standard Section on this topic there were a number of additional considerations in relation to share based payments. Section 26 on share based payment specifies the accounting for all share-based payment transactions. This includes arrangements with employees where the future provision of shares in the entity is part of their remuneration package. It also provides for shares to be used for the payment to other external parties including vendors. The considerations in relation to this topic stemmed from the expected characteristics of NPOs and as a result the likely types of share based payments that might exist.

BC26.3 As described in the basis for conclusions to Section 2, it has been considered possible but unlikely that an NPO will have equity claims and even more unlikely that it has traded shares with commercial value. Where such equity does exist then some guidance could be beneficial.

BC26.5 Given the characteristics of an NPO it would not be expected that share-based payments form a part of employee remuneration. It was proposed that this Section be amended to remove references to employees, including share appreciation rights and share options. Clarifications on the application of the guidance to employees should this be necessary could then be included in the application guidance.

BC26.6 An approach that removes references to employees would also require some further consequential adjustments to reflect the role of equity for NPOs. This would in particular affect paragraphs relating to vesting and 'vesting conditions'

BC26.7 Given the level of likelihood that an NPO has shares and that these shares are used to make share-based payments, there is a key question as to whether this Section is needed. In discussions with the TAG, the view was that there is not clear evidence that a section on share based payments it need as this not likely to be necessary for NPOs. The TAG were of the view that including a section on share based payments could cause confusion given the stated characteristics of NPOs and the expected role of equity.

BC26.8 The TAG considered whether INPAG should include a Section on share based payment and suggested that as they are likely to be incredibly rare that rather than a section providing detailed guidance that is unlikely to be used that INPAG defaults to alternative guidance.

BC26.9 As a consequence this section has been significantly reduced to provide cross references to other guidance only. A questions will be raised in the Exposure Draft about the need for more extensive guidance on this topic.

Section 28 – Employee benefits

BC28.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Employee benefits was not included as a prioritised topic.

BC28.2 In reviewing the *IFRS for SMEs* Accounting Standard Section on this topic there were a number of additional considerations in relation to employment benefits. These considerations mostly stemmed from the expected characteristics of NPOs and as a result the likely types of remuneration arrangements that might exist with employees.

Scope of the Section

BC28.3 In the Basis for Conclusions for Section 26 – *Share based payments* it is proposed that this Section no longer reference employees as the nature of NPOs is such that employees are unlikely to participate in remuneration arrangements that involve shares. References to share based payments have been therefore been removed Section 28 of INPAG.

Short term employee benefits

BC28.4 The characteristics of an NPO require that any surpluses (profits) are used to further the objectives of the NPO and are to be used for the benefit of service beneficiaries. For this reason, all references to profit sharing arrangements are also proposed to be removed from Section 28 of INPAG. References to bonuses have been retained as this might be part of a remuneration structure, but not profit sharing.

Post-employment benefits

BC28.5 Section 28 includes guidance on post-employment benefits and the accounting for defined benefit pension schemes. The *IFRS for SMEs* Accounting Standard allows a policy choice for in-year changes to the amounts to be recognised for defined benefit pension schemes. In the *IFRS for SMEs* Accounting Standard these changes can be included in either the profit or loss or in other comprehensive income.

BC28.6 Earlier discussions with the TAG highlighted the desire for simplicity by some users of NPO financial statements. The TAG discussed the possibility of removing an accounting policy choice and requiring actuarial changes from the revaluation of defined benefit pension schemes to be presented in the Statement of Changes in Net Assets, to achieve this desire for simplicity.

BC28.7 The TAG were, however, of the view that removing a policy choice was effectively introducing a rebuttable presumption. With the expectation that few NPOs will have defined benefit pension schemes and those that do may have more complex stakeholders requirements the TAG were of the view that it was appropriate to maintain the policy choice.

BC28.8 As a consequence the draft INPAG allows a choice between changes being recognised in the Statement of Income and Expenses or Statement of Changes in Net Assets.

BC28.9 Paragraph G28.37 refers to group arrangements and the possibility that other entities are following other GAAP. This paragraph has been amended to require that the allocation of employee benefit expense can only be made if the controlling NPO is following INPAG. This change has been made as the paragraph is written for a controlling NP and it if follows that this treatment is allowed only if the NPO is following INPAG.

Section 29 – Income tax

BC29.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Income tax was not included as a prioritised topic. The updates to Section 29 *Income Tax* are largely to make them NPO specific with consequential changes to terminology.

BC29.2 In the *IFRS for SMEs* Accounting Standard in the context of income tax refers to taxable profits and losses. The term 'taxable profits and losses' is the term that is commonly used by tax offices that cover all organisations in the economy. Elsewhere in INPAG references to profit and losses have been amended to surplus and deficit. As this is a tax regulation term rather than an accounting term it was proposed to retain the term unchanged. This was discussed with the TAG and fully supported.

BC29.3 Paragraph 29.3 of the *IFRS for SMEs* Accounting Standard scopes out Section 24 *Government Grants*. With the proposal that Section 24 is removed and that the accounting for government grants is dealt with as part of a comprehensive section on revenue, this reference has been removed from Section 29 of INPAG.

BC29.4 The purpose of this paragraph is to specifically address timing differences. Additional guidance on timing differences arising from revenue may be appropriate, as well as additional guidance on gifts in-kind and services in-kind. It is therefore proposed that additional text is developed (either core guidance or application guidance) as a consequential change as the drafting of the guidance on revenue is developed. No specific issues relating to government grants and income tax have as yet been identified

BC29.5 As INPAG allows for some items of income and expense arising from fair value adjustments to go through the Statement of Changes in Net Assets, INPAG has been amended to allow for a tax expense to be recognised in the Statement of Changes in Net Assets, consistent with the text requiring that the tax expense appears alongside the related transaction. If it becomes clear that a tax expense is unlikely to arise in relation to these transactions, this amendment will be removed.

Section 31 – Hyperinflation

BC31.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Hyperinflation was not included as a prioritised topic.

BC31.2 No major editorial changes are proposed for hyperinflation, with minor changes to terminology and to align with other Sections. The main changes are to reflect the structure of the balance sheet proposed for NPOs in INPAG and the names and scope of the financial statements as they relate to income and expenses.

Section 32 – Events after the balance sheet date

BC32.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Events after the balance sheet date was not included as a prioritised topic.

BC32.2 There were no significant issues arising from the review of this Section. Other than terminology, changes reflect alignment with other INPAG Sections. Key changes to note are:

a) the sources of bankruptcy have been expanded to include 'grant provider'. This reflects the importance of grant providers to the business model for an NPO and that the bankruptcy of a grant provide could have flow on effects for an NPO;
b) 'trade' has been deleted against 'trade receivable' consistent with Section 4.
c) references to profit sharing have been removed consistent with the amendments made to Section 28.
d) references to dividends as this is not expected to be a feature of NPOs who are not operating for returns. Amendments to the draft text allow for the possibility of an NPO making a distribution to holders of equity claims. This is expected to be extremely rare and will be reviewed to take account of feedback on equity requested as part of Exposure Draft 1 (ED1).
e) an amendment has been made to reflect that it is not an entity's owners that has the power to amend the financial statements after issue, but there may be 'others' who have this type of power. This is to reflect that ownership is not a key driver of how an NPO operates.