



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED12-07

18 May 2023 – Online

Section 24 Part III Fundraising costs - Analysis of the Consultation Responses

Summary	The paper analyses the consultation responses on fundraising costs and proposes the way forward for providing guidance on this issue in INPAG.
Purpose/Objective of the paper	The paper identifies the key issues highlighted through the consultation responses. It seeks advice on the proposed approach to developing guidance for INPAG based on the proposals in the Consultation Paper and the responses received.
Other supporting items	TAGED12-06 <i>Classification of expenses</i>
Prepared by	Philip Trotter
Actions for this meeting	Advise on the way forward for drafting the Exposure Draft and associated Guidance.

Technical Advisory Group

Section 24 Part III *Fundraising costs* – Analysis of Consultation Paper responses

1. Introduction

- 1.1 This paper provides:
- an overview of the Consultation Paper
 - a summary of the consultation responses
 - a proposed approach to drafting the Exposure Draft

2. Consultation Paper

- 2.1 The Consultation Paper noted that information about fundraising costs is important to users, with comparisons of fundraising costs with income generated, or with programme delivery costs, often used to assess efficiency. This can, however, sometimes be misleading, especially as fundraising costs are generally incurred before the corresponding income is generated.
- 2.2 Fundraising activities and therefore costs are also not always easy to define. Activities with the primary objective of raising funds may serve additional purposes and many other activities are important to income generation. The direct costs allocated to fundraising can be subjective, and the true cost of fundraising activities may include an element of indirect costs. The costs and complexities of allocating these indirect costs may outweigh the benefits.
- 2.3 From a financial reporting perspective, the Consultation Paper identified that there may be benefits to standardising the definition of fundraising costs and addressing general recognition principles, the presentation of direct fundraising costs, the treatment of business development costs, the basis of allocation of overheads and disclosure requirements.
- 2.4 The two main challenges highlighted in the consultation paper included:
- The identification of costs of fundraising activities may not align completely with cost classification by function; and
 - Fundraising costs may not be readily identified from an NPO's accounting systems.

- 2.5 The Consultation Paper noted that the existing international frameworks did not specifically address fundraising costs. All do require an entity to present an analysis of expenses classified by either nature or function. In addition IFRS Standards and IPSAS also include segment reporting requirements that could potentially be relevant. The use of a segment for fundraising would, however, require other parts of the NPO's activities to be reported in the same way and require the relevant disclosures on performance, assets and liabilities.
- 2.6 The additional guidance provided by some jurisdictions was also highlighted. Although this does not provide a single view of the definition of the cost of fundraising, jurisdictional-level requirements included:
- requiring all expenditure of fundraising to be identified, with a list of activities as examples;
 - guidance for smaller entities that provides for an analysis of expenses that draws on expenses by nature and function, with expenses for public fundraising are required to be disclosed as part of this guidance;
 - guidance on allocating costs to fundraising from certain joint activities; and
 - guidance that addresses the timing of the recognition of fundraising costs.
- 2.7 Three main alternatives for financial reporting guidance were presented in the Consultation Paper:
- **Alternative 1 (any international framework):** would allow organisations to use any of the international frameworks as they have similar requirements. NPOs could continue to develop their own policies on the treatment of such costs, with additional guidance to support NPOs with the identification of fundraising costs and could provide recommendations for financial reporting. This might include fundraising costs being reported as a function as part of a functional analysis.
 - **Alternative 2 (one international framework with disclosure of accounting policy):** would require an entity to follow IFRS Standards, the IFRS for SMEs Standard or IPSAS with additional guidance that requires (where fundraising costs are included in the financial statements) an NPO to disclose its accounting policy for fundraising costs. This would include which types of costs form part of this activity and the approach to allocation of overhead.
 - **Alternative 3 (new NPO-specific guidance developed):** would require fundraising costs to be disclosed along with the accounting policy. The Guidance developed for this alternative could provide the basis for a standard definition along with cost allocation methodologies, and might usefully include a list of fundraising activities to assist NPO.

- 2.8 Segmental reporting was not included as it was deemed too onerous for smaller organisations. None of the alternative approaches would permit costs to be netted from the related income – although pragmatically it was accepted that there may be a limited number of examples where exemptions from this might be permitted.

3. SMC 9.a Description of the Issue – Fundraising Costs

- 3.1 For each of the issues in the Consultation Paper stakeholders were invited to comment on whether the paper had appropriately captured the issue. For SMC 9.a, 84% of respondents agreed with the description of the issue.
- 3.2 Of those disagreeing, one respondent noted that information on fundraising costs though important was not the only factor in assessing efficiency. Another indicated that the issue was being made overly complex and that capturing direct funding costs consistently should be sufficient. Finally, one respondent noted that fundraising costs are notoriously difficult to assess, especially when integrated with an NPO's business as usual activities. For them fundraising should be seen as a whole organisation activity with expenses reported with other general expenses by nature.
- 3.3 The Secretariat agree that there are many factors that are important when assessing the performance of an NPO. This is why narrative reporting requirements were developed to enable NPOs to report on those aspects of financial and operational performance that are most important to them and their users. The nature of NPOs and the reliance of many on revenue generated from non-exchange transactions means that fundraising costs will though, be a common measure of performance that is useful information to many users. If fundraising costs are to be included specifically in the financial statements, the presentation of direct costs only is likely to be insufficient to allow for a faithful representation and to enable comparability between NPOs.

4. SMC9.b Are the List of Alternative Treatments Exhaustive?

- 4.1 For each Issue stakeholders were asked to comment on whether the alternative treatments for that issue were exhaustive. 82% of respondents agreed that the list of alternatives was exhaustive.
- 4.2 Respondents who disagreed noted that the alternatives did not cover the question of whether fundraising costs would be disclosed in the primary statements or in a separate disclosure note. One of these respondents also

highlighted that another alternative could be to make the disclosure of fundraising costs optional, as opposed to Alternative 3 which is compulsory.

- 4.3 The Secretariat considers that the optional disclosure of fundraising costs approach are covered within alternatives 1 and 2. These do not require the compulsory presentation of such costs, but where an NPO does determine that they should be included would provide relevant guidance. Whether fundraising costs would be disclosed in the primary statements or in a separate disclosure note is linked to the broader issue of the classification of expenses. Here a key determinant is if expenses are classified by nature, function, both or a hybrid approach and which is included in the primary statements.

5. SMC 9.c Articulation of the Advantages and Disadvantages of the Alternatives

- 5.1 Respondents were asked if they agreed with the advantages and disadvantages articulated for each alternative accounting treatment.

- 5.2 Only two respondents disagreed. Comments from these respondents included:

- The alternative 3 advantage of ‘flexibility to define the costs of fundraising with the principles established by the guidance’ is hard to quantify without knowing more about how flexible the principles will be;
- Alternative 3 may result in significant additional costs to reconfigure accounting systems and procedures;
- A disadvantage for alternative 3 is that the NPO is not able to report the costs of fundraising in a way that is most relevant to the entity due to the proposal that a standard definition of fundraising costs, including a narrow list of the type of expenditure to be classified as fundraising costs, is to be provided. NPOs will have different strategies for raising funds and so the types of fundraising expenditure can vary dramatically. To make this information relevant to the entity, the definition of fundraising costs will have to be sufficiently flexible to accommodate this.

- 5.3 The Secretariat acknowledges these responses in particular the disadvantage for alternative 3 that the NPO is not able to report the costs of fundraising in a way that is most relevant to the entity. The Secretariat is taking this into consideration as part of the proposed approach to developing the Exposure Draft.

- ## 6. SMC 9.d Preferred Alternative – Alternative 1 (*any international framework*), Alternative 2 (one international framework with disclosure of accounting policy), Alternative 3 (new NPO-specific guidance developed)

- 6.1 Respondents who expressed an opinion on preferred alternative were most supportive of alternative 3 (new NPO-specific guidance developed) (11 in favour, 73%). Alternative 1 and alternative 2 both received 2 responses in favour (13%).

Alternative 3: (new NPO-specific guidance developed)

- 6.2 Respondents in favour of alternative 3 noted that a standard definition and set of cost allocation methodologies requiring all NPOs to measure and report fundraising costs in the same way would be a great improvement on current practice. The sensitive nature of fundraising costs meant that absent clarity and consistency in reporting it was difficult for stakeholders to compare and assess performance as there was an incentive to net fundraising costs with funds generated and/or exclude outsourced costs.
- 6.3 One respondent in favour of alternative 3 did caution that it may only be appropriate for larger NPOs because of the potential costs associated with reconfiguring accounting systems and procedures.

Alternative 1 (any international framework):

- 6.4 Respondents preferring alternative 1 highlighted that following existing international guidance on the recognition, presentation and disclosure of expenses, with NPOs deciding whether the resulting information is reliable and relevant to its users of financial statements, would be sufficient.

Alternative 2: (one international framework with disclosure of accounting policy)

- 6.5 Respondents who provided comments in favour of alternative 2 noted that alignment to international accounting standards, in particular the *IFRS for SMEs* Accounting Standard, would be preferable given significant diversity among NPOs. Examples highlighted included the difference between operating charities and fundraising charities, and large organisations with diverse fundraising programs and small organisations with more rudimentary approaches. They noted that this diversity would make alternative 3 ineffective, as it would not result in comparable results between NPOs
- 6.6 The Secretariat notes that the development of new NPO-specific guidance was the most favoured alternative, but is mindful of the comments of those preferring other alternatives that guidance needs to reflect diversity and that NPOs should be able to decide what information is reliable and relevant to their users. These views are being taken into consideration as part of the proposed approach to developing the Exposure Draft.

7. SMC 9.e Do you agree that all fundraising costs should be presented gross?

- 7.1 Finally, respondents were asked to comment on whether they agreed that all fundraising costs should be presented gross and if not to provide examples of where this might not apply and the reasons for this view.
- 7.2 All respondents agreed that fundraising costs should be presented gross. Comments in support included that fundraising costs to income can be a key ratio and that netting income and costs would mean this information was not available to stakeholders and that this would not be in line with the general principles of international standards.
- 7.3 One respondent did note that there would be occasions where it might be impracticable to present gross costs, such as where sponsors share costs and gross costs may not be known. As noted earlier in response to the description of the issue, there were also views expressed that fundraising should be seen as a whole organisation activity with expenses reported gross but with other general expenses by nature.

Question 1: Do TAG members have any comments on the feedback provided by respondents to the SMCs in the Consultation Paper and the views expressed by the Secretariat?

8. Approach to Drafting the Exposure Draft for Fundraising Costs

- 8.1 The Secretariat will develop drafting for Exposure Draft 3, based on the proposals in the Consultation Paper, feedback received from respondents, and the broader approach to the classification of expenses.
- 8.2 As set out in TAGED12-06, the proposed approach to the classification of expenses is to explore if a mixed approach combining natural and functional cost presentation would be appropriate for NPOs. As part of this work it will look at what natural or functional expense information would be required. Whichever classification approach is deemed appropriate, it is expected that fundraising costs can be a specified activity that needs to be presented for all NPOs. This work will also explore whether the information could be on the face of the Statement of Income and Expenses or disclosed in a note..
- 8.3 Guidance would be provided on the principles for identifying and allocating costs to fundraising, including where such costs are shared between fundraising and other activities of the NPO. Guidance would also be provided on how such costs are presented between funds with restrictions and funds without restrictions. In developing this guidance consideration will be given to the costs



involved in developing grant agreements and broader fundraising to attract these types of funds.

Question 2: Do TAG support the approach proposed of developing guidance on the presentation of fundraising costs as part of the broader development of guidance on the classification of expenses?

May 2023

Annex A: Detailed Responses to Specific Matters for Comment

Question	Response	Number	%	% Responded
SMC 9(a) Do you agree with the description of issue 9: Fundraising costs? If not, why not?	Agree	16	36%	84%
	Disagree	1	2%	5%
	Neither Agree nor Disagree	2	5%	11%
	<i>Non Response</i>	25	57%	
TOTAL		44	100%	100%
SMC 9(b) Do you agree that the list of alternative treatments that should be considered for issue 9 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.	Agree	14	32%	82%
	Disagree	3	7%	18%
	Neither Agree nor Disagree	0	0%	0%
	<i>Non Response</i>	27	61%	
TOTAL		44	100%	100%
SMC 9(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 8? If you do not agree, please set out the changes you propose, and why these should be made.	Agree	14	32%	82%
	Disagree	2	5%	12%
	Neither Agree nor Disagree	1	2%	6%
	<i>Non Response</i>	27	61%	
TOTAL		44	100%	100%
SMC 9(d) Please identify the alternative treatment that you favour for issue 8, and the reasons for your view.	Alternative 1	2	5%	13%
	Alternative 2	2	5%	13%
	Alternative 3	11	25%	74%
	<i>Non Response</i>	29	65%	
TOTAL		44	100%	100%



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

SMC 9(e) Do you agree that all fundraising costs should be presented gross? If not, please provide examples of where this might not apply and the reasons for your view..	Agree	17	39%	100%
	Disagree	0	0%	0%
	Neither Agree nor Disagree	0	0%	0%
	<i>Non Response</i>	27	61%	
TOTAL		44	100%	100%