



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED13-01

27 June 2023 – Online

ED2 update – Section 13 *Inventories*, Section 23 *Revenue*, Section 24 Part I *Expenses on grants and donations*, and Section 30 *Foreign Currency Translation*

Summary	The paper provides an overview of the final amendments made to the draft of the Exposure Draft 2 content for Section 13 <i>Inventories</i> , Section 23 <i>Revenue</i> , Section 24 Part I <i>Expenses on grants and donations</i> , and Section 30 <i>Foreign Currency Translation</i> .
Purpose/Objective of the paper	The paper identifies the final amendments that have been made to the draft of the Exposure Draft 2 content for Section 13 <i>Inventories</i> , Section 23 <i>Revenue</i> , Section 24 Part I <i>Expenses on grants and donations</i> , and Section 30 <i>Foreign Currency Translation</i> . It provides TAG members with an opportunity to comment on those changes before the draft is finalised for copy editing ahead of publication.
Other supporting items	TAGED13-02 - SMCs for inclusion in ED2 TAGED13-03 – Invitation to comment for ED2
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Actions for this meeting	Comment on the final amendments made to the draft Guidance to be included in Exposure Draft 2 and advise on any final areas that may require consideration.

Technical Advisory Group

ED2 update – Section 13 *Inventories*, Section 23 *Revenue*, Section 24 Part I *Expenses on grant and donations*, and Section 30 *Foreign Currency Translation*

1. Introduction

- 1.1 This paper provides:
- an overview of the final amendments made to the draft of the Exposure Draft 2 content for Section 13 *Inventories*, Section 23 *Revenue*, Section 24 Part I *Expenses on grants and donations*, and Section 30 *Foreign Currency Translation*; and
 - requests TAG members to advise on any final areas that may require consideration before the finalisation of each Section for copy editing ahead of public exposure.

2. Final amendments made to the draft content for Section 13 *Inventories*

- 2.1 A draft of Section 13 *Inventories* content was provided to TAG members at the May 2023 meeting. On the basis of the advice and requests from TAG members, a number of amendments have been made to recognition and measurement.

Recognition of inventories

- 2.2 Clarification has been included that non-current assets or high value items are not included in the exception that is available for items donated to the NPO for distribution to beneficiaries or for the NPO's own use.
- 2.3 The Basis for Conclusions been amended to highlight that some TAG members have noted that the exceptions proposed to recognition may not meet the needs of the users of financial statements. It also notes that the Secretariat has agreed to review the proposals once responses to ED 2 have been received.

Measurement of inventories

- 2.4 TAG members raised a concern that in seeking to be helpful, there may be undue emphasis on the ability to reliably measure inventory. As a consequence a rebuttable presumption has been added to clarify that there is an expectation that donated inventories can be measured reliably. The guidance still recognises that there may be rare circumstances where an NPO would not, for example, have the systems or resources to keep accurate records without delaying the response to an emergency. In such cases the rebuttal of the presumption would require disclosure.
- 2.5 To support the use of fair value, cross references to the fair value hierarchy in Section 12 *Fair Value Measurement* for determining the fair value of donated inventories has been included. Guidance is also included that where an NPO needs to refer to level 3 inputs (that is, unobservable inputs) to determine the fair value of the donated inventories, the NPO may use the cost to the donor (where this is known) as an input used in estimating fair value.
- 2.6 As discussed at the last TAG meeting, the First Expired First Out cost model for perishable inventories has been removed. The Basis for Conclusions notes that a First In First Out or weighted average cost formula as permitted by the *IFRS for SMEs* Accounting Standard and could be used to achieve a similar outcome in the circumstances highlighted. An Illustrative Example for donated perishable inventories has also been included.

Question 1: Do TAG members have any comments on the proposed rebuttable presumption?

Question 2: Do TAG members have any comments on the updates that relate to measurement?

Question 3: Do TAG members have advice on any final areas that may require consideration before the finalisation of Section 13 *Inventories* for public exposure?

3. Final amendments made to the draft content for Section 23 Revenue

- 3.1 Since the last draft shared with the TAG significant amendments have been made to the drafting of Section 23 *Revenue*. These changes relate to the positioning of material in the preface, the use of terms, and the focus of the

content in Part I being on the most common types of revenue from grants and donations.

- 3.2 The most substantive change made to the draft Section 23 *Revenue* content relates to terminology. The proposed changes to terminology also impact on Section 24 Part I *Expenses on grant and donations*.

Terminology updates

Enforceable grant arrangement

- 3.3 The term enforceable grant arrangement has been introduced to replace binding grant arrangement. The definition is:

An enforceable grant arrangement is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on both the parties to the grant arrangement.

As previously described, this could be through a written grant agreement, but could also be through an oral agreement or implied by a party's or a sector's customary practices. In determining whether a grant arrangement is enforceable, an NPO must consider the substance rather than the legal form of the grant arrangement. This will require the consideration of the NPO's, the donor's and the sector's customary practices.

- 3.4 Discussions with focus group members highlighted concerns about the understandability of the term 'binding arrangement' to NPOs as it did not resonate at all. These discussions also highlighted the importance of enforceability for NPOs. The term enforceable grant arrangement is preferred to binding grant arrangement as it reinforces the necessity of the grant arrangement being enforceable through legal or equivalent means.
- 3.5 A further consideration is that a binding arrangement as defined in IPSAS covers all arrangements including contracts with customers. In INPAG there is a separate section and set of terminology for contracts with customers and so if binding arrangement is used in INPAG it would not have the same meaning as in IPSAS.

Enforceable grant obligation

- 3.6 The term enforceable grant obligation replaces compliance obligation. Feedback from focus groups also highlighted that the term compliance obligation did not resonate with the sector. Compliance obligation is the term used in IPSAS and for the same reason as set out in paragraph 3.5, might not be appropriate as it is intended to relate to all arrangements including those that are for contracts with customers.
- 3.7 In addition to the change in term, the concept has been expanded so that it includes an undertaking by the grant recipient to achieve a specific outcome. This is in addition to the delivery of activities and the internal use or external transfer of distinct services, goods and other assets as previously described.
- 3.8 As a consequence, it is proposed that an enforceable grant obligation is defined as a grant recipient's undertaking in an enforceable grant arrangement to achieve a specified outcome, carry out a specified activity to use distinct, services, goods or other assets for a specified purpose, or to transfer distinct, services goods, cash or other assets externally.
- 3.9 An undertaking is a commitment to achieve a specific outcome, carry out a specific activity, or to use internally or transfer externally distinct services, goods or other assets. An undertaking in an enforceable grant arrangement creates an enforceable grant obligation.

Question 4: What are TAG members' views on the use of the terms enforceable grant arrangement and enforceable grant obligation?

Question 5: What are TAG members' views on the use of the word 'undertaking' in defining an enforceable grant obligation?

Funding agreement

- 3.10 An arrangement with an NPO that is not enforceable through legal or equivalent means and does not give both parties rights has been defined in the draft of Section 23 as a funding agreement.
- 3.11 A funding agreement may be a written grant agreement, an oral agreement or implied by customary practices. A funding agreement also includes those situations where a grant-provider transfers resources to a grant recipient

without there being any agreed or implied arrangement in place. A funding agreement may still constrain the grant recipient's use of the resources, but this will not be sufficient to create an enforceable grant obligation. This is because a funding agreement does not confer both rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement.

Constraint

- 3.12 The use of the terms conditions and restrictions to describe a requirement placed on a grant recipient as to how resources are used had led to some confusion. In particular there was uncertainty as to how these interacted with the term performance condition in IFRS and whether these would always require a presentation as funds with restrictions.
- 3.13 As the terms funds with restrictions and funds without restriction are used in INPAG, the term 'restriction' is not being used in INPAG to refer in general to a requirement placed on a grant recipient as to how it uses resources. As discussed at the last TAG meeting it is proposed that a new Section on fund accounting is developed that will provide guidance on the presentation requirements for funds with restrictions and funds without restrictions. This Section will be included in ED3. This allows Section 23 to focus on recognition and measurement (with associated disclosures).
- 3.14 The term condition has been retained to only specifically refer to a performance condition in revenue with contracts with customers, so that there is no confusion on terminology across the guidance.
- 3.15 Requirements placed on the grant recipient as to how it uses resources are proposed to be termed as constraints.

Question 6: What are TAG members' views on the use of the term funding agreement to describe grant arrangements that are not enforceable?

Question 7: What are TAG members' views on the use of the term constraint instead of conditions and restrictions?

Other significant amendments

- 3.16 In addition to terminology updates in the Authoritative Guidance, there have been further significant amendments made to Section 23 *Revenue*.
- 3.17 There has been a change in the structure of the Section which has seen a change to the content of the Preface. The Preface now introduces the overall principles for revenue recognition and measurement and the five-step model and how it is applied to enforceable grant arrangements and revenue from contracts with customers. This text has been relocated from Part II as the 5 step model also applies to enforceable grant arrangements,
- 3.18 A number of amendments have also been made to reduce complexity and duplication within the Section. In particular the changes focus Part I on the transactions that are expected to be most common for NPOs. For less common transactions there is guidance about how to use the principles contained in Part II. This has enabled a reduction in the length of the core Guidance.
- 3.19 Decision trees have also been updated to reflect terminology and content updates, and these have been included in the Application Guidance to further reduce the length of the core Guidance.
- 3.20 Implementation guidance and examples have been updated to reflect terminology and content updates.

Question 8: Do TAG members have any comments on the location of text in the Preface and the use of cross references to Part II to allow the removal of duplication between Part I and Part II?

Question 9: Do TAG members have any comments on the final amendments made to the draft Exposure Draft 2 content for Section 23 *Revenue*?

4. Final amendments made to the draft content for Section 24 Part 1 *Expenses on grants and donations*

Terminology updates

- 4.1 Consistent with Section 23 *Revenue* changes have been made to Section 24 Part I *Expenses on grants and donations* to reflect updates to terminology.

Other significant amendments

- 4.2 The content related to the recognition and measurement principles for enforceable grant arrangements has been simplified to ease usability, with the amalgamation of the previously distinct content on arrangements where there is just one grant fulfilment right and those where there are multiple grant fulfilment rights.
- 4.3 Decision trees have been updated to reflect terminology and content updates, and these have been included in the Application Guidance to reduce the size of the core Guidance.
- 4.4 Additional content has also been included in the Application Guidance on enforceability in an enforceable grant arrangement. This is focused on regulatory oversight and the potential for this to provide an alternative process to provide enforceability.
- 4.5 Implementation guidance and examples have been updated to reflect terminology and content updates.

Question 10: Do TAG members have any comments on the changes to terminology as it impacts Section 24 Part I *Expenses on grants and donations*?

Question 11: Do TAG members have any comments on the final amendments made to the draft Exposure Draft 2 content for Section 24 Part I *Expenses on grant and donations*?

5. Final amendments made to the draft content for Section 30 *Foreign Currency Translation*

- 5.1 A draft of proposed amendments to Section 30 *Foreign Currency Translation* and associated application and implementation guidance was provided to TAG members at the May 2023 meeting. On the basis of the advice and

requests from TAG members, and as a result of additional developments, the following amendments have been made.

- 5.2 There has been amendment to the proposed presentation requirements of with restrictions and without restrictions to refer to the new Section on fund accounting that is to be developed as part of Exposure Draft 3. This will allow further consideration of which grant arrangements should be presented with funds 'with restrictions'. Section 30 establishes that the new Section on fund accounting will determine which grants and therefore which exchange gains and losses are presented with restrictions.
- 5.3 The implementation examples were shared with a focus group to seek feedback on whether they were clear and were illustrative of the situations experienced by NPOs. As a consequence there have of this and the updates referred to above some small amendments have been made, including references to the allocation of exchange gains and losses where there are many grants in a single foreign denominated bank account.

Question 12: Do TAG members have any comments on the final amendments made to the draft Exposure Draft 2 content for Section 30 *Foreign currency translation*?

6. Next steps

- 6.1 Subject to TAG member comments, the Exposure Draft content will be finalised for copy editing ahead of publication.

June 2023

List of annexes (separate files)

Annex A: Section 13 *Inventories*

Annex B: Section 23 *Revenue*

Annex C: Section 24 Part I *Expenses on grants and donations*

Annex D: Section 30 *Foreign Currency Translation*