



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED13-02

27 June 2023 – Online

Specific matters for comment – ED2

Summary	The paper provides proposals for the specific matters for comment to be included in Exposure Draft 2.
Purpose/Objective of the paper	The paper proposes specific matters for comment for each of the Sections that are to be included in Exposure Draft 2. Feedback can relate to any aspect of the Exposure Draft, but Specific Matters for Comment (SMCs) can aid respondents in focusing on significant matters in the proposals. The questions are intended to seek input on matters where further information is sought, there may be a range of views, or a proposal is new and significant to NPO financial reporting.
Other supporting items	TAG13-01 and TAGED12-05
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Actions for this meeting	Comment on the specific matters for comment proposed and advise on any additional matters that need to be raised.

Technical Advisory Group

Specific matters for comment ED2

1. Introduction

- 1.1 In each Exposure Draft, feedback is sought on the proposals to inform the development of the final guidance. Feedback can relate to any aspect of the Exposure Draft, but Specific Matters for Comment (SMCs) can aid respondents in focusing on significant matters in the proposals.
- 1.2 This paper proposes SMCs for each of the Sections that are to be included in Exposure Draft 2. The questions are intended to seek input on matters where further information is sought, there may be a range of views, or a proposal is new and significant to NPO financial reporting.

2. Section 13 *Inventories*

- 2.1 Section 13 *Inventories* was identified as a high priority topic to include in INPAG, specifically in terms of guidance for donated inventory. This Section has not been completely reviewed but is has been updated to specifically include guidance related to donated inventory and for inventory held for onward distribution rather than sale to service recipients.
- 2.2 Annex A proposes 6 questions to be included as SMCs and provides a cross reference to the relevant section of the guidance. These questions address the broadening of the scope of the Section to specifically include inventory held for onward distribution, the proposed exceptions (which are the mirror of the proposals in Section 23 *Revenue*), the valuation of donated inventory and disclosures.

Question 1: Do TAG members have any comments on the proposed SMCs for Section 13? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

3. Section 23 *Revenue*

- 3.1 Section 23 *Revenue* has been significantly amended from Section 23 in the *IFRS for SMEs Accounting Standard*. As TAG members will know, this Section now comprises 2 parts, with Part I a new part of the guidance to address revenue from grants and donations and Part II largely unchanged from what was originally in Section 23.
- 3.2 The key questions relate to
 - a. the structure of the guidance
 - b. the terminology used for the types of agreements and obligations
 - c. revenue recognition points

- d. recognition and measurement of donations in-kind
 - e. proposed disclosures
- 3.3 Given the significance of this topic to NPOs there are a larger number of questions. Some of these questions may equally apply to Section 24 Part I Expenses on grants and donations, as they frequently address the same point but from the grant-provider rather than the grant recipient perspective. There could be benefit in asking a similar question in both Sections, but this might make the list of questions much longer.
- 3.4 Alternatively, the SMCs for Section 24 could direct potential respondents to the questions in Section 23 where these are relevant, but this might weaken the grant-provider perspective as the responses might be influenced by thinking about the issues in a revenue context rather than an expenses context.
- 3.5 As drafted the questions do not specifically address timing or multi-year arrangements, but they are implicitly addressed within the other questions proposed. Feedback on whether the proposed questions are sufficiently clear would be helpful.
- 3.6 As drafted Annex A includes 14 questions to address the objectives of the SMCs.

Question 2: Do TAG members have any comments on the proposed SMCs for Section 23? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

Question 3: What are TAG members views on the potential overlap of questions between Section 23 and Section 24?

4. Section 24 Expenses on grants and donations

- 4.1 As noted above Section 24 Part I *Expenses on grants and donations* in many respects is addressing the mirror of the issues being addressed in Section 23 Part I. Grant expenses was identified as a priority topic with no international guidance available. Recently IPSASB has issued IPSAS 48 *Transfer expenses* and the drafts of this standard have informed the development of the INPAG text.
- 4.2 Similar to the Section 23 the key issues relate to:
- a. the terminology used for the types of agreements and obligations
 - b. expense recognition points
 - c. proposed disclosures
- 4.3 The SMCs as drafted are intended to address the grantor specific perspective, so that feedback can be obtained on accounting for the expense rather than the revenue. In contrast with the proposed questions for Section 23, there are specific questions about multi-year grants and capital grants.
- 4.4 As drafted Annex A includes 9 questions to address the objectives of the SMCs.

Question 4: Do TAG members have any comments on the proposed SMCs for Section 24? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

5. Section 30 Foreign currency translation

- 5.1 Section 30 *Foreign currency translation* was not initially listed as a priority topic, but feedback from the consultation and the related outreach identified this as an urgent area to address. In examining the feedback received it was evident that the concerns related to the presentation and disclosure of exchange gains and losses, particularly where these related to grant arrangement, rather than the accounting for foreign currency transactions.
- 5.2 The updates to Section 30 are therefore focused on presentation and disclosure, particularly in a fund accounting context. The updates also introduce new text that broadens the types of transactions that inform the decision an NPO makes about its functional currency.
- 5.3 Annex A proposes 5 questions that address the additional text that broadens the factors to be considered in determining an NPO's functional currency, the presentation of exchange gains and losses in the Statement of Income and Expenses and disclosure requirements. A more general questions is also proposed to capture recognition and measurement issues associated with foreign currency translation. There is an additional question about the need for a paragraph relating to controlled entities.

Question 5: Do TAG members have any comments on the proposed SMCs for Section 30? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

6. Sections 6, 21, 25, 28,29, 31 and 32

- 6.1 SMCs were proposed for these non-priority sections in TAG ED12-05. No feedback was received on the proposed questions and they have therefore been carried forward into the final proposals contained in this paper.
- 6.2 In addition to the specific questions proposed for some sections, a generic question could be added, similar to the one used in Sections 8 and 10 to ask whether there are any other issues that should have been considered in the drafting of these sections. This question would apply to all Sections 21, 26, 28 and 29. The generic question would be as follows:

Do you agree that there are no additional alignment considerations for this Section? If not, identify which paragraphs require alignment and why?

Question 6: Do TAG members agree that with the proposed section specific SMCs in Annex A?

Question 7: Do TAG member agree that a general question should also be added to all section but Section 6?

7. Next steps

- 7.1 In total there are 43 SMCs proposed for inclusion under 12 main question headings. This compares to 37 questions under 12 question headings included in ED1. This Exposure Draft includes significant accounting issues and it is therefore not surprising that there are a greater number of SMCs in this exposure draft.
- 7.2 Given the number of potential SMCs to be included in ED2, it is proposed that the consultation period for this Exposure Draft is increased from the 4 months for Exposure Draft to 6 months. This also reflects the importance of the topics for NPO and the consequential level of outreach needed to gain the broadest possible feedback.

Question 8: What are TAG members views on the total number of proposed SMCs and the proposed comment period?

- 7.3 Subject to final comments from TAG members, these questions will be included in the draft of ED2 to proceed to copy editing.

June 2023



Annex A

Proposed SMCs

Section 6

1	Question	References
a)	Do you agree that transfers between funds should be shown on the Statement of Changes in Net Assets rather than on the Statement of Income and Expenses? If not, why not?	G6.5
b)	Does the consequential amendment to Section 6 provide sufficient guidance on transfers between funds? If not, what additional guidance is required?	AG6.1 – AG6.3

Section 13

2	Question	References
a)	Do you agree with the expansion of Section 13 <i>Inventories</i> to specifically include inventory held for use or distribution? If not, why not?	G13.1
b)	Do you agree that donations held for resale are not recognised as inventory? If not, why not?	G13.2, G13.5 a)
c)	Do you agree that the recognition of donated inventory held for use or distribution can be delayed until it is used, when it is recognised as revenue and expensed at the same time? If not, why not?	G13.2, G13.5b)
d)	Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	G13.7
e)	Do you agree that inventories held for distribution at no or nominal consideration or for use by the NPO in delivering its objectives shall be measured at the lower of cost adjusted, for any loss of service potential and replacement cost? If not, what would you propose instead?	G13.8
f)	Do you agree with the proposal that where permitted exceptions are used and where inventories are not recognised because they cannot be reliably measured that they are disclosed? If not, why not?	G13.26 e), G13.27

Section 21

3	Question	References
a)	Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?	Section 21, Illustrative example 2



Section 23

4	Question	References
a)	Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?	Section 23
b)	Do you agree that all revenues from grants and donations can be classified as an enforceable grant arrangement or a funding agreement? If not, providing examples of which grants or donation revenue would not fit in either of these classes, why not?	G23.22-G23.29
c)	Do you agree with the definition of an enforceable grant arrangement and its requirement from a grant recipient perspective? If not, what do you see as the practical or other considerations?	G23.23-G23.26
d)	Do you agree with the terminology of enforceable grant arrangement and enforceable grant obligation? If not, what alternative terms to achieve the same meaning would you propose?	G23.23-G23.26
e)	Do you agree that revenue can only be deferred if the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?	G23.28, G24.43, G23.57-G23.59
f)	Do you agree with the proposals that allow the recognition of some gifts in-kind either when sold, used or distributed? If not, what would you propose instead and what is the rationale for your proposal?	G23.36
g)	Do you agree that the recognition of services in-kind should be mandated where they are mission critical? If not, on what basis should services in-kind be recognised in NPO financial statements and what is the rationale for your proposal?	G23.36, G23.38, G23.63
h)	Do you agree that the permitted exceptions for donations in-kind cannot be used where donations are received as part of an enforceable grant arrangement? If not, why not?	G23.35
i)	Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you proposed instead?	G23.31-G23.32, G23.35-G23.38
j)	Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.	G23.49
k)	The definition of an enforceable grant obligation uses the term 'undertaking' to describe the actions that a grant receiving NPO needs to make. Is 'undertaking' sufficiently clear to create an enforceable obligation? If not, what alternative terms do you propose and why?	G23.26, G23.45-G23.46
l)	Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?	G23.61-G23.70



m)	Does the proposal that simpler grants are covered in Part I and referring to Part II for more complex transactions succeed in removing duplication and help understandability and the ability to implement? If not, what would you change and why?	
n)	Will the additional guidance for applying the 5 step revenue recognition model to simpler contracts that NPOs have with customers improve ease of use of Section 23 Part II. If not, what other simplifications would be helpful?	G23.73

Section 24

5	Question	References
a)	Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or a funding agreement? If not, providing examples of which expenses on grants or donations would not fit in either of these classes, why not?	G24.3-G24.6
b)	Do you agree that regulatory oversight can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to regulatory oversight?	G24.3, AG24.9, AG24.15
c)	Do you agree that customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to customary practices?	G24.3, AG24.13-AG24.15
d)	Do you agree with the definition of an enforceable grant agreement from a grantor/donor perspective? If not, what do you see as the practical or other considerations	G24.3-G24,.4
e)	Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a grant-provider not recognise the full expense and what is the rationale?	G24.17-G24.18, AG24.24-AG24.27
f)	Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.	G24.4, IG24.22
g)	Do you agree that where the use of resources has been constrained in a funding agreement, a grant-providing NPO will only recognise an asset where the failure to meet the constraint creates a present obligation for the grant recipient? If not, why not? What would you propose instead?	G24.11
h)	Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead?	AG24.30-AG24.25
i)	Do the proposals for disclosure of grant expenses provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?	G24.32-G24.41



Section 25

6	Question	References
a)	Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out alignment changes required.	Section 25

Section 26

7	Question	References
a)	Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.	Not applicable

Section 28

8	Question	References
a)	Do you agree that profit sharing and share-based payments are removed from Section 28 <i>Employee benefits</i> to reflect that employees of NPOs are not incentivised by sharing in the surpluses made by an NPO? If not, provide examples of profit sharing arrangements used by NPOs.	G28.3
b)	Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?	G28.21

Section 29

9	Question	References
a)	Do you agree that Section 29 <i>Income taxes</i> is required? If not, which elements are not needed and why?	Section 29

Section 30

10	Question	References
a)	Do you agree with the amendments that requires grants and donations to be considered when setting the functional currency? If not, why not?	G30.3 c), G30.5 b), G30.5 d)
b)	Do you agree with the principle that exchange gains and losses are shown as without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?	G30.12



c)	Do you agree with the need for the exception in G30.15? If not, why not?	G30.15
d)	Do you agree with the proposal that exchange gains and losses that contribute to a surplus or deficit on those individual grant arrangements presented as funds 'with restrictions' be disclosed? If not, why not? What would you propose instead?	G30.30
e)	Do you agree that there are no NPO specific recognition and measurement issues associated with foreign currency translation as opposed to presentation and disclosure issues? If not, explain the NPO specific recognition and measurement issues.	G30.6-G30.13

Section 31

11	Question	References
a)	Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required	Section 31

Section 32

12	Question	References
a)	Do you agree that there are no significant alignment changes required to Section 32, other than those that have already been made? If not, describe any further alignment changes required	Section 32