



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED14-01
28 September 2023 – Hybrid

Exposure Draft 3 key principles and overview

Summary	The paper describes the scope of Exposure Draft 3 (ED3) and the key relationships between sections in this Exposure Draft. It also proposes key principles for fund accounting.
Purpose/Objective of the paper	The paper provides a full list of all of the sections to be included in ED3. It sets out the connections between the various sections and also to previously exposed content. Finally the paper looks at the principles to determine which transactions should be presented as part of funds with restrictions and which transactions should be presented as funds without restrictions.
Other supporting items	TAGED14 papers
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Actions for this meeting	<p>Note and provide feedback on:</p> <ul style="list-style-type: none">i. the relationships between the sections in Exposure Draft 3ii. the relationship to sections already exposed <p>Advise on:</p> <ul style="list-style-type: none">iii. the principles proposed to identify which transactions should be presented as part of funds with restrictions and which transactions should be presented as part of funds without restrictions.

Technical Advisory Group

ED3 key principles and overview

1. Introduction

- 1.1 Exposure Draft 3 is the final planned exposure draft that will set out the proposals for the remaining INPAG sections. This paper sets out the scope of Exposure Draft 3 along with the key issues to be considered in bringing together this final part of INPAG. This includes key principles for the new section on fund accounting.

2. Scope of Exposure Draft 3

- 2.1 Exposure Draft 3 will be the largest exposure draft in terms of the number of sections that it contains. Most of these will be based on the content in the *IFRS for SMEs* Accounting Standard updated for terminology and alignment with other INPAG sections. There are however, 4 areas (classification of expenses, fundraising costs, fund accounting and supplementary information) that will contain new material. There will also be significant modifications to the section on transition to the guidance and potentially also to the section on liabilities and equity.
- 2.2 The scope of ED3 and the expected level of change is as follows:

Section	Title	Expected change
12	Fair value measurement	Editorial
14	Investment in associates	Editorial
15	Joint arrangements	Editorial
16	Investment property	Editorial
17	Property, plant and equipment	Editorial
18	Intangible assets other than goodwill	Editorial
19	Business combinations and goodwill	Editorial
20	Leases	Editorial
22	Liabilities and equity	Modified
24 Part II	Classification of expenses	New
24 Part III	Fundraising costs	New
27	Impairment of assets	Editorial
33	Related party disclosures	Editorial
34	Specialised advice	Editorial
36	Fund accounting	New
37	Supplementary information	New
38	Transition to the Guidance	Modified

- 2.3 All of these sections will be discussed as part of the meeting agenda.

3. Key connections with other sections

- 3.1 As will be highlighted in papers TAGED14-05, TAGED14-09 and TAG4-10, there are a number of alignment issues to consider in relation to the principles and positions already established in the content of Exposure Drafts 1 and 2. As will be set out in each of these papers, while these topics have not been fully reviewed in some cases it is proposed to go beyond simple terminology changes to ensure consistency and support for other sections.
- 3.2 In addition it is proposed to further discuss equity, following the deliberations at the TAG meeting in September 2022. This is pivotal to how NPOs are described in Section 1 and the concepts and pervasive principles in Section 2. The outcome of these discussions will help frame the proposals for Section 22 Liabilities and Equity.
- 3.3 The key issues for ED are the connections between the new proposed sections and other parts of the guidance and connections between the sections themselves. There are connections between the new text for fundraising costs and classification of expenses, that will be set out in TAGED14-02 and TAGED14-03.
- 3.4 The key consideration, however, is to the cumulative impact and interrelationship between the presentation and disclosure requirements that arise from the classification of expenses, fund accounting and proposals for the provision of supplementary information. The classification of expenses paper will consider what expense information needs to be shown on either the face of the Statement of Income and Expenses or notes to the financial statements. The proposals for which transactions should be shown as with or without restrictions are set out below. Finally, the proposals for supplementary information are covered in TAGED14-07 and will consider what information should be included in general purpose financial reports and the form it should take. Any supplementary information will draw on expense information, which may or may not be the same as the Statement of Income and Expenses as well as looking at those transactions that have been classified as part of funds with restrictions.
- 3.5 It is therefore important to note that choices made about the presentation or disclosure of information in one section may have implications for the proposals in another section. TAGED14-08 will consider these points and reflect what these relationships mean for the primary statements and associated notes. TAG members are encouraged to take a holistic view of the proposals being presented in papers at this meeting, with the discussion at TAGED14-08 an opportunity to bring these together.

Question 1: Do TAG members have any comments on the scope or points noted on the interrelationships between sections noting that these will be addressed in subsequent TAG papers at this meeting?

4. Fund accounting principles

Related content in ED1 and ED2

- 4.1 The key to this section is the definition of which transactions should be included in funds with restrictions and where this information should be presented. There are choices between the face of the primary statements, notes to the financial statements, or in optional supplementary information.
- 4.2 Section 2 *Concepts and pervasive principles* shared in Exposure Draft 1 established the principle that the funds of an NPO shall be split between funds with restrictions and funds without restrictions. Section 2 defined funds with restrictions as follows:

Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity as a consequence of externally imposed funding or other legal arrangements placed on the NPO by a resource provider.

- 4.3 While detailed analysis of the responses to Exposure Draft 1 is not yet complete, there is high level support for this approach that presents information on these types of transactions.
- 4.4 During the development of Exposure Draft 2, the terms enforceable grant arrangement (EGA) and other funding arrangement (OFA) were created to define for the purposes of revenue and expense recognition, two different types of grant arrangement. As a reminder the definitions we have used for these types of arrangement are as follows:

Enforceable grant arrangement (EGA) - A grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an EGA are EGOs. An EGA must have at least one EGO.

Other funding arrangement (OFA) - An arrangement with a grant recipient that is not enforceable through legal or equivalent means and does not give both parties rights.

The guidance says that an OFA may constrain the grant recipient's use of the resources, but this will not be sufficient to create an EGO. This is because an OFA does not confer both rights and obligations, enforceable through legal or equivalent means, on both the parties to the arrangement.

- 4.5 As a consequence, with the definition of a transaction that is part of funds with restrictions that is currently in Section 2, all EGAs would be included and potentially those OFAs that include an externally imposed constraint on a transaction.

Proposals for Section 36 Fund accounting

- 4.6 It is important that the definition of what is to be included in funds with restrictions is clear and simple to apply. With that in mind, discussions were held with both a focus group and with the PAG in early September about which transactions should be included in funds with restrictions.
- 4.7 The proposal put to both the focus group and the PAG was that funds with restrictions should only include all EGAs and those transactions based on a jurisdictional regulatory requirement that also impose restrictions. Examples of jurisdictional regulatory requirements highlighted included a fundraising campaign for a specific stated cause, donor stipulated restrictions where there is no contract such as specific bequests and legally restricted funds such as endowments.
- 4.8 The proposal was that any other OFAs would be shown in funds without restrictions, with the ability for these to be shown separately. It was also proposed that there is a mandatory funds movement note included in the general purpose financial statements as set out in Annex A. The movement of funds note has arisen out of the discussions on foreign currency translation, where consequential amendments to Section 6 were proposed but deferred until ED3, discussion on the Supplementary Statement previously discussed with the TAG and following further research in advance of developing proposals for the new Section 36.
- 4.9 All agreed that EGAs should be included in funds with restrictions, but there was significant disagreement about which other transactions should be shown and how these proposals would apply.
- 4.10 The feedback included the expectation that those who provided resources to NPO's with any kind of limitation on use, would expect those resources to be part of funds with restrictions. Participants felt that substance over form was important in considering what should be treated as restricted.
- 4.11 There was concern about what was meant by a jurisdictional regulatory requirement and the extent to which this might be consistent globally. The example of on-line campaigns for a specific cause was raised by multiple participants, where all felt that this should be part of funds with restrictions (noting this would not meet the definition of an EGA).
- 4.12 There was also concern about resources provided with a constraint, and whether if this was presented in the notes or financial statements this would be understood by stakeholders, and again whether there would be an expectation that these are shown as with restrictions. There was a view that stakeholders would better understand the difference between internally and externally imposed requirements rather than between EGAs and OFAs, when looking at the presentation of what is shown as restricted. An alternative presentation term of 'externally designated' was proposed.

- 4.13 It was also noted that having the ability to separate those transactions that are subject to constraints as opposed to being part of an EGA can be helpful, as it is these transactions where income and expenses are likely to appear in different reporting periods.
- 4.14 There was also a request for additional guidance and examples to further explain the factors that need to be considered in classifying transactions between those with and those without restrictions.
- 4.15 With regards to the mandatory movement on funds disclosure, there was no significant dissent to this proposal, with many commenting on its usefulness. The most significant feedback was around the use of the term 'constrained' and its positioning as part of funds without restrictions.
- 4.16 As noted, the proposal to only include EGAs and transactions subject to regulatory requirements in funds with restrictions was made in an attempt to simplify the reporting requirements, by providing clarity about the types of transactions to be shown as with restrictions and to align with income recognition. It was also framed to minimise the initial reporting requirement and allow that to develop based on experience.
- 4.17 There is also a consideration about the extent to which the guidance should reflect how transactions currently take place between grantors/donors and the recipient and the extent to which the guidance might drive improvements across the sector. For example, greater clarity in grant arrangements might lead to more grants being recognised as EGAs and automatically shown as part of funds with restrictions. Identifying transactions as being subject to constraints might therefore be subject to change over time and it may therefore not be appropriate to require, as opposed to permit, such transactions to be split out as could be the case in the movement in funds note (see Annex A).
- 4.18 The Secretariat were also concerned that should transactions with constraints be included as funds with restrictions, there may be difficulty in defining the significance of a constraint for this classification to apply. For example, a constraint might relate to time, general operations, or a particular set of activities. It might have a right of return, or an enduring requirement that can be exercised over any time period.
- 4.19 There is an opportunity to discuss this further with the DRG when it meets towards the end of October.



Question 2: What are TAG member's views on

- i. the proposal that only EGAs and funds subject to regulatory requirements are included as part of funds with restrictions?
- ii. the application of substance over form in the context of stakeholder needs and their expectations of what is presented as part of funds with restrictions?
- iii. the practicalities of including transactions 'subject to jurisdictional requirements' as part of funds with restrictions?
- iv. the proposal for a mandatory movement in funds note?
- v. the proposal to permit transactions subject to constraints to be disclosed in the movements in funds note but not require this?

5. Next steps

- 5.1 A draft of Section 36 Fund Accounting is not provided for this meeting. A full draft will be provided at the next TAG meeting so that that feedback over the course of TAG14 can be incorporated. Given the significance of this topic to INPAG, it is proposed to hold a separate, single issue meeting to discuss a draft of this section.

September 2023



Annex A – Movement of funds note

Note 1x. Analysis of funds.

	At 1 April 2021	Income	Expenditure	Transfers	31 March 2022
Restricted funds	CU	CU	CU	CU	CU
Restricted Fund 1 (EGA 1)	50	203	196	-	57
Restricted Fund 2 (EGA 2)	268	150	404	-	15
Restricted Fund 3 (Jurisdiction requirement)	243	455	270	-	429
Restricted fund (other EGAs)	1,223	5,922	5,477	-	1,669
Total with restrictions funds	1,785	6,731	6,346	-	2,169
Funds without restrictions:					
<i>Revaluation reserve</i>	103	-	-	-	103
<i>Internally designated funds</i>	1,645	-	264	500	1,881
<i>Constrained funds/Externally designated funds</i>					
Constrained Fund 1	340	100	373	-	67
Other constrained Funds	303	958	945	-	316
General reserves	514	1,494	532	(500)	976
Total funds without restrictions	2,802	2,552	2,114	-	3,240
Total Funds	4,690	9,283	8,460	-	5,513