



IFR4NPO Project

Advice and Requests
Technical Advisory Group meeting

29 and 30 September 2022
TAGED08





Session outline – Day 1

- Revenue
- ED1 Terminology and concepts
- General purpose financial reports
- Structure of ED1
- Sector update



Session outline – Day 2

- SMCs
- NPO description and the reporting boundary
- ED1 Summary
- ED1 Implementation Guidance
- Grant expenses
- Foreign exchange presentation
- NPOs acting on behalf of other entities

Agenda item 1 – Revenue

1.1 Advice

- a) Agree that tax and audit threshold issues should not be within scope of the Guidance.
- b) Ideas around use or return need to be developed, particularly as PAG advice is that ‘use or return’ has become a norm. However, some jurisdictions may not legally provide for a ‘return’. The accounting treatment should not hinge on a ‘use or return’ condition.
- c) The concept of a ‘binding arrangement’ being discussed by IPSASB allows the nature of the arrangement with the provider of funds to be explored. Also the notion of ‘performance obligation’ used in IFRS is called a ‘compliance obligation’ in IPSAS with an expanded set of events, which lead to a liability or restriction.
- d) It may be better to eliminate choices in accounting policies and make the ability to use accounting policies subject to conditions. Options that involve the use of IAS 20 should not be used as the standard is out of date.
- e) Having a single integrated set of guidance that covers all revenue transactions may be easier to use. Confusion can exist about whether grants are exchange or non-exchange transactions. If revenue transactions are split across two sections, guidance needs to indicate which section should be used for different types of revenue Examples will help.

Agenda item 1 – Revenue

1.1 Advice

- f) The term ‘non-exchange revenue’ is not commonly understood across the sector and another term would be preferable.
- g) Consider the ‘rules of the road’ in any departures from the IFRS for SMEs Accounting Standard and the rationale for any departure if this is decided. Consider the impact on auditors who know the IFRS for SMEs Accounting Standard.
- h) Splitting restricted and unrestricted is important for stakeholders in the sector. It is important that it is made clear that the split is a presentational issue not a matter of recognition.
- i) Scenarios of principal/agent require guidance, particularly where the beneficiaries are not specific but the goods and services are.
- j) The approach to performance conditions should be principles based. Application to specific or general conditions will depend on the model proposed. Indicators of activities that are not performance conditions would be useful.
- k) There are mixed views in New Zealand about whether there should be an exception for time based requirement for tier 3 entities (smaller NPOs) that would effectively allow matching. Not supported for larger entities.

Agenda item 1 – Revenue

1.1 Advice

- l) Where the grant year and financial year are not the same there are cost benefit considerations. When a year in question has not yet been reached revenue should be treated as a multi-year grant.
- m) Government and non-government grants should not be treated differently. A definition of grants and donations would be helpful
- n) Recognising services in-kind should be permitted (possibly encouraged) but not required, with guidance on when such services can be measured and factors to consider when making a choice. Factors should reflect the usefulness of the information and cost benefit
- o) Permitting but not requiring recognition of services in-kind will lead to inconsistency. Disclosure can provide transparency and give visibility to an NPO's operating model
- p) A single policy for gifts in-kind would be simpler with optionality for different types of asset. A rebuttable presumption for recognition and disclosures where recognition has not been made maybe useful. Need to consider cost/benefit of proposals.
- q) Exceptions based on undue cost and effort may be difficult to apply in practice. Flexibility in drafting the guidance would be preferable.

Agenda item 1 – Revenue

1.2 Requests

- a) Develop options 2 and 3 to demonstrate what each approach would mean in practice.
- b) Prepare a flowchart that shows how ‘binding’ and ‘non-binding’ arrangements would be dealt and test with PAG members to assess whether outcomes are consistent.

Agenda item 2 – ED1 Terminology and concepts

2.1 Advice

- a) Service potential should be described as a separate concept and developed in due course so that the relationship with the same or similar terms in other GAAPs is clear.
- b) While supporting the approach to funds with and without restrictions, additional disclosures may be required particularly for assets funded by capital grants that are part of funds without restrictions.
- c) Clarity is needed on the differences between conditions and restrictions. The term designation may be preferable to restriction.
- d) Plain English explanations of funds with restriction in the Implementation Guidance and supporting material will help understanding of recognition and presentation which can be conflated. The definition of restrictions needs to cover purpose and time.



Agenda item 2 – ED1 Terminology and concepts

2.1 Advice

- e) If equity claims rarely exist there may be a risk of overcomplicating the Guidance and the term equity may not resonate with those who are concerned with using IFRS for SMEs as a base for NPO reporting. Useful to include equity in the Exposure Draft to test need for guidance, but reduce prominence. Use application guidance to describe likely materiality and the basis for conclusions to explain the approach.
- f) Equity could be removed from illustrative statements, but would be a departure from the 'rules of the road'. Having illustrative statements with numbers may help.
- g) Remove capital contributions and distributions as an element and replace with an element that describes holders of equity claims that could be called 'holders of equity claims' or 'contribution from equity holders'. The difference between equity and net assets needs to be clear. The word 'capital' can be associated with non-current assets rather than equity claims and so the term 'capital contribution' could be confusing

Agenda item 2 – ED 1 Terminology and concepts

2.2 Requests

- a) Revisit the SMC in relation to service potential to draw out whether there might be concerns about the concept or the label.
- b) Further discussion will be required on contributed assets and whether there are circumstances where this should be treated as equity
- c) Review the SMCs related to equity claims to gather more information through responses.
- d) Remove definitions for exchange and non-exchange transactions.
- e) Flip how net assets and equity are described in the draft, with equity the element.

Agenda item 3 – General purpose financial reports

3.1 Advice

- a) Clarify that endowments are not included in ED1 as part of the basis for conclusion.
- b) Deferred revenue should be included as a line item in illustrative statements but no additional guidance should be provided ahead of ED2.
- c) Explain the approach to offsetting (netting off) in the basis for conclusions and in explainer videos. Additional guidance should only be provided if there is a specific NPO issue.
- d) Many NPOs do not classify their assets between current and non-current, but this may reflect that they hold their assets for less than 12 months. Support a rebuttable presumption that assets held for more than 12 months are non-current resulting in a current/non-current split.
- e) NPOs may not have the capacity to provide disclosures around restricted cash and cash equivalents. As cash is fungible this may create difficulties. Donated financial assets should not be included as a non-cash item.

Agenda item 3 – General purpose financial reports

3.1 Advice

- f) Support the use of the qualitative characteristics of financial information for non-financial information as described.
- g) Reiterating materiality with regard to non-financial information may help address double materiality
- h) The proposed exemption on sensitive information might be misused to avoid reporting. The inclusion of a generic statement relating to the use of the exemption would be helpful.
- i) Flexibility in the presentation of balance sheet can be helpful because of jurisdictional differences, but a prescribed format as adopted in India, provides allows comparability. It would be useful to look at jurisdictions who prescribe presentation to understand the rationale.
- j) Comparatives on the face of the income statement could make them very 'busy'. Consider comparatives in the notes to the financial statements.

Agenda item 3 – General purpose financial reports

3.2 Requests

- a) Include an SMC about the classification between current and non-current assets.
- b) Include an SMC about the text proposed relating to use of the 'sensitive activities' exemption.

Agenda item 4 – Structure of ED 1

4.1 Advice

- a) Do not deviate from the 'Process for developing INPAG through changes to the IFRS for SMEs Accounting Standard' .
- b) The summary of the key differences to the IFRS for SMEs Accounting Standard could be put in a single annex.
- c) Use 'First Edition' for the final Guidance and not in the titles for the Exposure Draft.
- d) Describing the status of each Section could be useful. The current proposals don't accurately reflect each status. There is a risk of too much information.
- e) Section 19 should not be included in ED1 to avoid increasing the length of an already long ED.
- f) It is not clear enough in the Preface who INPAG is aimed at and would be helpful to be more specific throughout the document

Agenda item 4 – Structure of ED1



4.2 Requests

- a) Create a table of changes from the IFRS for SMEs Accounting Standard for inclusion in the Exposure Draft.

Agenda item 6 – SMCs

6.1 Advice

- a) A longer comment period might be helpful, as the timing might clash with many year ends.
- b) It may be better to put the SMCs at the beginning of each Section rather than the end.
- c) Having a survey with yes/no questions and the opportunity for written comments has been a useful mechanism to capture input from smaller entities. Issue multiple surveys so that the surveys are not too long. It may be useful to consult with academics who are experts on surveys.
- d) Detailed input on each SMC was provided by TAG members with the general advice to consider potential answers and how the responses might be used.

Agenda item 6 – SMCs

6.2 Requests

- a) Put references to the relevant paragraphs against each SMC.

Agenda item 7 – NPO description and reporting boundary

7.1 Advice

- a) Whether membership organisations are NPOs is an area of judgement. Further examples or guidance would be helpful linked to community benefit.
- b) The term public accountability could be confusing. NPOs do have accountability to the public.
- c) All entities should be included within the Preface, but entities with public accountability as defined in IFRS should not be permitted to exclusively use INPAG.
- d) It should not be left to a preparer to decide whether to not consolidate an entity on the basis of undue cost and effort and this should not be an option. Not consolidating an entity should be based on materiality not on the activities of the entities. An explanation should be provided of any judgements made.
- e) Where an NPO has a single provider of funds control may arise if this is a long term arrangements. Arrangements of a temporary nature should be disclosed.

Agenda item 7 – NPO description and the reporting boundary

7.2 Requests

- a) Strengthen the guidance on when exceptions to consolidation might be permitted.

Agenda item 8 – ED1 Summary

8.1 Advice

- a) Use bullet points rather than blocks of text and use more visuals and graphics to make it more engaging. Focus on plain English, keeping terms as simple as possible, which will assist translation. Include an invitation to respond in the summary.
- j) To explain the structure of the project use visuals, check language against agreed terms and remove non-exchange revenue. Explain acronyms where these are used and reduce technical language where possible.
- k) Useful to set out what is not in this ED and the plan for future adaptations. Additional resources e.g explainer videos will be helpful to explain what is in the Exposure Draft.
- l) Consider the audience for the summary. Standard setters are likely to look at the whole document. Could be useful for donors and other stakeholder groups.



Agenda item 9 – ED1 Implementation Guidance

9.1 Advice

- a) Increased consistency on the presentation of the examples, particularly in laying out the analysis and conclusions would be helpful.
- b) An SMC on the Implementation Guidance is not necessary.
- c) Too many examples might lead to prescription and create bright lines. Examples should illustrate a principle or if there is novelty.
- d) The illustrative financial statements should be part of the non-authoritative guidance. Having a longer list of items that might be relevant for a financial statement might be useful and this should include taxation.
- e) The use of the term 'investing activities' is commonly used and changing it will lead to lack of familiarisation. The purchase of assets might not be understood as 'investing'.
- f) It would be useful to require that an explanation is provided about the metrics chosen for narrative reporting. There may be benefits in standardising the way in which general reserves are described in narrative reports. Useful to test this.

Agenda item 10 – Grant expenses

10.1 Advice

- a) Support use of common terms ie binding and non-binding arrangement between revenue and grant expenses. Will need to see the proposal for grant expenses alongside the revenue proposals.
- b) Keep in mind the cost/benefit of proposals and avoid unintentionally creating additional reporting requirements.
- c) Grant providers may have information deficits in accounting for binding arrangements noting that if grant providers can't monitor delivery they will not be able to defer expenses.



Agenda item 11 – Foreign exchange presentation

11.1 Advice

- a) Agree with the development of additional guidance for NPOs. Need to consider whether guidance is needed for the Statement of Changes in Net Assets.
- b) As each INPAG topic is developed consider foreign currency issues.

Agenda item 12 – NPOs acting on behalf of other entities

12.1 Advice

- a) Agree with proposed way forward. Guidance needs to cover the recognition of assets and liabilities.