

Comments in response to the inquiry on the

INTERNATIONAL NON PROFIT ACCOUNTING GUIDANCE

This report was prepared by the Integral Management Technical Commission for Micro, Small and Medium organizations of the Inter-american Accounting Association, with member participation of the following countries: Argentina, Bolivia, Chile, Ecuador, Panama, Paraguay, Peru, Uruguay and Venezuela.

1.- Some previous comments

1.1.- The title of the project Accounting Guidance or Guide for the preparation of financial information?

According to the document received, the title of the project is the *International Non Profit Accounting Guidance*.

Consideration should be given to defining the title more precisely based on the objective of the project.

It's clear that accounting, as a discipline, is not synonymous of financial information, which is a product of a professional task.

According to this, a proper interpretation of the title would be that what you intend to propose is not drafting a standard for the preparation of financial information, but a manual or similar to better interpret and apply the rules that are in force.

In addition, in the first paragraph of page 4 of the document under analysis, the objective is defined as the first financial information guide for these organizations.

Assuming that the objective is to propose a standard to prepare the financial information of these organizations, that intention should be reflected in the title and thus the title and the definition of the objective would be consistent, for example International Financial Reporting Guidance for NPOs.

1.2.- General information on the Editorial Commission

The document does not provide information on the drafting commission or responsible for preparing the project.

It would be good to add data in this regard, such as the names of the authorities and colleagues who prepare it, also indicating their countries and other information of interest.

1.3.- From the Summary page 4 of the document

In the paragraphs referring to Proposals, it is indicated that the alternative of adapting the IFRS for SMEs was chosen to draft the standard for these organizations.

This alternative is aimed at maintaining the advantages and disadvantages of IFRS for SMEs.

The advantage of this alternative is to maintain the virtues of that standard that are of public knowledge and the disadvantages are also the criticism that that standard deserves, such as the following.

.. The difficult applicability in all the entities for which it was issued,

.. The administrative limitations that small entities have for the preparation of financial information.

.. It does not include in its objectives the consideration of micro-organizations, which in the case of non-profit entities, as in companies, represent around 90% of all NPOs.

.. It is reiterated that the title, the objective, the generic definition of Non-profit Organizations, as indicated on page 9 of the document, and the method chosen for its writing should be harmonious, coherent among themselves.

1.4.- From the Introduction. Page 5 of the document

In the table referring to quality, it is expressed *to improve the quality, transparency and credibility of the financial reports* of these organizations.

It should be considered that currently the financial information of these organizations is prepared based on current standards, all of which, if they adequately complied with said standards, would be of good quality.

In addition, the terms or words chosen may reflect the intention, so in this case the expression of *improving quality* could be reconsidered for the true and authentic objective underlying this project, which is to propose a specific standard for a specific sector of organizations, simple and equally important expression.

This expression is in line, is consistent with what is expressed in the confidence tables, *supports the provision of adequate information* and with what is expressed in the comparability table, *supports specific issues* of the sector.

In accordance with this, in every expression, the good quality of the current standards should be upheld and it should be emphasized that considering the particular aspects and informational requirements of NPOs, the objective of a specific standard for the sector was set.

1.5.- On the approach to the development of the INPAG. Page 6 of the document

In the second paragraph referring to the Conceptual Framework, it is stated that *the possibility of developing an independent conceptual framework from scratch* for organizations in this sector was considered.

In the first *objective* From the PG Guide Project! .Page 8 of the document is expressed. The objective of *PG1 is to create the general framework for financial reporting*.

The meaning of general framework should be clarified. If it refers to matters, criteria or general rules, would be good to avoid confusion if the term framework is changed for what they are, general rules or criteria.

In the case in which it refers to the conceptual framework, that consideration should be set aside.

In the accounting discipline, already for a long time, it has been considered that the conceptual framework is made up of the basic, elemental or essential criteria or concepts from which all the other standards that regulate the preparation of financial information are defined.

This allows the internal coherence of the discipline.

In the same way, reports of different types are presented, detail, content or attending particular information requirements that do not modify the concept that accounting is one, unique.

The IFRS for SMEs is proof of this since its conceptual framework is the same as that of the full IFRS. The project under analysis is very important in order to prepare more specific information, attending particular requirements of the sector, and it must be considered that the conceptual framework is of the discipline and not of the specialty or particularity.

Accordingly, the development of an independent conceptual framework should be set aside as that would be against the internal coherence of the discipline.

1.6 The *Financial Information Guide for Microenterprises* of the Inter-American Accounting Association.

In point 2.1 of the present question 2.a is answered and in it the need to clearly define the subject that should apply the norm is raised.

In this regard, it is suggested that the issuance of a standard with the orientation expressed in the document under consultation would be appropriate and useful for certain NPOs but would not be applicable to non-profit micro-organizations.

This Commission prepared a *Financial Information Guide for Microenterprises* that was approved by the Authorities of the Inter-American Accounting Association.

This Guide is entirely applicable to all types of micro organizations, since the characteristics and administrative limitations of microenterprises and non-profit micro organizations are similar.

For your consideration, the text of the aforementioned guide is attached with the suggestion that the objective of the accounting standard for NPOs be fully resolved by issuing two accounting standards.

A standard for NPOs that are large or medium-sized global, that have international activity and/or receive public funds from the state or the financial market, and also another simple accounting standard for local micro organizations that do not have any of the aforementioned characteristics.

2.- Of the Adaptations. Proposals. The answers to the questions

2.1.- An approach to the general characteristics to describe NPOs. Page 9

Question 2.a. It agrees with the description of the general characteristics.

In general, the description is fine, but considering the intention of issuing a standard proposal for its general application, some details are missing.

Will the regulatory proposal be for all NPOs?

Any size?

From anywhere?

Even if they are simply local and have no international activity?

In point 1.3. It is hereby stated that following the guidelines of the IFRS for SMEs has its advantages and disadvantages. Some of its disadvantages are reiterated and expanded below.

1.- By definition, its objective does not include the preparation of financial information for micro-organizations.

According to this, organizations that represent around 90% of the cases are being left aside, a generalized situation throughout the world both in companies and in those defined as NPOs.

In that high percentage, local NPOs are included without any relationship with companies from other places, not even from their own country.

What would be the interest of these NPOs in applying an international standard that would surely force them to make greater efforts to prepare information.

2.- The Latin American reality showed the inapplicability of the IFRS for SMEs in a general way.

Few countries have sanctioned it as a standard and even in those same countries compliance is low, since it requires administrative efforts and resources that these entities do not have or do not decide to allocate to the accounting information system.

The administrative limitations of this type of organization are similar to those of companies of this size and limited activity, and even more so since a large part of their tasks are carried out by volunteers. It can be assumed that the results of applying the standard will be repeated.

It would be necessary to reconsider the subject for whom this norm will be proposed

For all NPOs?

Including microorganizations?

Including the strictly local ones?

For those who only receive funds from small and local contributors?

Experience indicates that for different reasons, an international standard is extremely useful for organizations, companies and NPOs that have international activity and that could be used by their audiences, such as contributors and/or those who fulfill supervisory functions, are of more of a country, so that in general the users of financial information are from more than one country.

These in general have an economy that exceeds the reality of microorganizations and even small ones.

It would be good to propose a norm whose effectiveness, of its compliance, tends to be 100%...

Question 2.a .2nd part. Do you agree that the term *provides a benefit to the public to all entities that could be NPOs* and if not that it could be changed?

In the answer to question 2.a, it is answered in part, .Only for those that need an international standard and are willing and able to comply with it

Regarding the others, it is tautological that accounting information is useful for all audiences.

2.2.- Users of financial reports with general purpose of NPOs and their needs.

Page 10

Question 3.a Do you agree with the proposed primary users and the description of their needs?

The document under review includes a generic description of what will be included in the section on fundamental concepts and principles.

Considering that the line of the IFRS for SMEs will be maintained, it can be assumed that the type of information and level of detail will be adequate for all users, in which case the description of the primary users is in agreement.

In any case, as in several national standards, it would be positive to also add some non-primary users, since they are all interested parties in the activity of these organizations.

2.3.- Which NPOs are expected to use the INPAG. Page 11

Question 2.b. Do you think it is clear which NPOs are destined to benefit from the use of INPAG?

It is assumed that the expression is *intended to benefit from the use of the INPAG*, it means that it will be for those who apply the INPAG.

It is clear that the objective is that they are applied in all NPOs

The answer to question 2.a 2nd part is reiterated.

It is suggested to restrict the subject of application to global NPOs, large medium and/or with international activity and/or that receive direct public funds from the state or indirectly through public titles.

Likewise, it should be considered not to accept in any case the criterion of perceived or effective because it is contrary to the conceptual framework and general criteria of the current regulations.

2.4.- NPOs. What it reports and its limits. Page 12

Question 3 Is the description of the reporter clear?

No.

The option of the economic substance is understood, but the entity that must report is not clear. When specifying the reporting entity, care should be taken not to create controversies with legal aspects.

Question 10 b Do you agree that a rebuttable presumption regarding control is useful?

Yeah

Question 10 a and 10 c Is the application guide sufficient to apply the fundamental principles and qualitative characteristics of faithful representation and relevance?

Yeah.

The final text should state with great clarity and specifications so that they guide the adequate disclosure about the reliability and relevance of the information that is presented.

It will be important to keep track of your application for possible modifications to the guide that maybe necessary, after the launch of your application.

Question 10 d Do you agree with the use of the terms parent NPO and controlled entity with an interest in participating in the benefits instead of parent, subsidiary and investment

It is indifferent. Although parent, subsidiary and investment are preferred

2.5.- Key concepts and principles. Page 13

Question 3 c Do you agree with the components of net assets?

Yeah.

In addition, it is necessary to indicate the special characteristics of the asset and within these the restricted staff that are special conditions for the organization.

Question 3d. Do you agree with the inclusion of Net worth as an element? What type of patrimony could an NPO have?

Yeah.

In essence it is the same as in companies, Contributions, in this case definitive without restrictions and accumulated surplus.

It would be good to analyze a third group within the patrimony that reflects the part that corresponds to contributions that increase the patrimony but that are not freely available, precisely due to restrictions that could be of use and/or liquidation or sale.

It would make it possible to observe which assets are available for free management by the authorities on duty and which part they cannot dispose of and/or not change the use of because they have obligatory use.

2.6.- IFPG information base – characteristics. Page 14

Question 3.b Do you agree with the proposed qualitative characteristics of useful information. Page 14

Yeah

2.7.- Accounting of funds. Page 15

Question 3e Do you agree with the funds with and without restrictions?

Yeah

Question 5b, 6c and 7b Is the separation of transactions and balances with and without restrictions in the statement of financial position, the statement of income and expenses and the statement of changes in net assets sufficient?

Yes, they are sufficient but it could be improved with additional information.

For example two annexes.

An Annex of Composition of the funds, in which details of the different funds with and without restrictions are presented, will allow to know the freedom or limitations of the management according to their funds and with the presentation of this annex the presentation would be founded. summary in the financial statement

Another annex Compliance with the restrictions of contributors in which at least the large items of funds with restrictions are reported with some comment or information that indicates the degree of compliance with the objective and/or restriction that were set for them.

2.8.- Names and scope of the financial statements. Page 16

Question 6 a Do you agree with the title of the financial statement of income and expenses?

Yeah

It is important that for the same a classification of monetary and non-monetary income be disclosed

Question 7 a Do you agree with the scope of the statement of changes in net assets?

Yes, although a greater breadth in the narrative should be ensured so that it allows analyzing the necessary information that complies with its disclosure

2.9--Narrative reports.Page 17

Question 12 a Do you agree with the principles proposed to support narrative reports

Yeah

Question 12 b Do you agree with the scope of the mandatory minimum requirement?No.

Reports related to aspects of management exceed the objective of financial statements, so they should not be mandatory

Question 12 c Do you agree with the proposed exemption for sensitive information?

Yeah

It is part of the voluntary aspect of these reports.

12 d Would a two-year transition period help to overcome any challenges?

The meaning of *any challenge* is unknown

2.10--Service potential Page 18

Question 3 g Do you agree that service potential be introduced in INPAG?

Yeah .

It would be good to think of other more appropriate names for what it represents, because ultimately most of the assets are incorporated into the assets of these organizations to provide a certain service.

For example, service goods, goods to be distributed, general structure goods and, of course, the financial investment goods that could have that name are separated.

2.11--- Additional information .Page 19

Question 8 a Do you agree with the separate presentation of cash donations and grants?

Yeah. It is indifferent and in this case it can be considered that what abounds does not cause damage to the information.

Question 8 b Do you agree that donations or subsidies received for the purchase or construction of property, plant and equipment should be treated as investing activities?

No

They should be classified according to the destination for which they are purchased or built. Example if it is built with the restriction that they will be goods for services they should be treated as service goods

Question 4 b Do you agree that comparative statements should be shown in the primary financial statements?

Yeah

2.12---. Compliance with INPAG Page 20

Question 4 d Do proposals to express compliance with INPAG create unintended consequences?

No

On the contrary, it is essential to state with what standard the reports were prepared.