



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED17-04
27 February 2024 – Online

Specific matters for comment – ED3

Summary	The paper provides proposals for the specific matters for comment to be included in Exposure Draft 3.
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 3. 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	TAGED17 - 01
Prepared by	Karen Sanderson
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 ED3

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 3. 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.
- 1.3 To help users consider the questions, connected topics are planned to be grouped together as set out in Annex A. This may mean that in the Authoritative Guidance itself that questions do not run consecutively.

2. Section 24 Part II *Classification of expenses* and Section 33 *Related parties*

- 2.1 The classification of expenses was identified as a high priority topic to be included in INPAG as there is diversity of practice in presenting expense information. Expense information is critical to understanding how an NPO has used its resources. Lack of guidance on presentation requirements has led to the differences, which obscures transparency.
- 2.2 In developing the INPAG proposals consideration was given to the minimum amount of information that is needed to ensure a degree of consistency in published information, while retaining flexibility. This included a discussion on remuneration and the disclosure of staff related costs. As a consequence, additional guidance has been proposed for Section 33 to ensure that there is adequate disclosure without duplication of requirements.
- 2.3 Annex A proposes 5 questions to be included as SMCs and will provide a cross reference to the relevant section of the guidance. These questions address the use of a rebuttable presumption to set the default requirement, approaches to cost allocation and apportionment and the related disclosures.

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

3. Section 24 Part III *Fundraising costs*

- 3.1 Section 24 *Fundraising costs* is a new section that has been included as a priority topic. The section is intended to provide clarity about what is considered to be a fundraising cost and to set out the requirements for what must be published.
- 3.2 The scope and definition of fundraising costs can be broad. During the development of the Section, three categories of fundraising costs were identified. Not all TAG members agreed that all three categories should be included within the scope of the section.
- 3.3 The key question to be addressed in the feedback relates to the issue of scope and the mandatory disclosure requirements. Annex A proposes 4 questions to address the objectives of the SMCs.

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

4. Section 36 *Fund accounting and consequential amendments*

- 4.1 Fund accounting is a key concept within INPAG. It supports the separation of those funds that have restrictions from those that do not. Identifying the principles to identify which transactions should be considered funds with restrictions has been a central to the development of this section.
- 4.2 The Section provides guidance to support the identification of funds that are separate to the general fund. It requires an assessment of each of those funds to determine whether they should be presented as part of funds with restrictions or funds without restrictions.
- 4.3 This section also requires the disclosure of material funds with restrictions and funds without restriction in a new disclosure note.
- 4.4 The SMCs as drafted are intended to obtain feedback on the operation of these principles and whether its operation is likely to result in a presentation that matches stakeholder expectations. Annex A includes 6 questions to address the objectives of the SMCs.

Question 3: Do TAG members have any comments on the proposed SMCs for Section 36? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

5. Section 37 *Supplementary information and Supplementary Statement Guide*

- 5.1 The desire for standardised reporting requirement for donors was identified in the feedback to the Consultation Paper. In response a Supplementary Statement

Working Group was set up with representation from the TAG, the PAG and the DRG to examine the opportunity to develop reporting requirements as part of INPAG.

- 5.2 While concluding that the diversity of reporting requirements was too extensive to allow their incorporation into general purpose financial reports, a standardised horizontal presentation was agreed. This presentation is intended to allow the preparation of consistent information about a project, grant or set of activities and provide flexibility to meet donor requirements. It was agreed that this should be a recommended practice guide to sit outside of INPAG.
- 5.3 To strengthen the usefulness of these statements, particularly demonstrating that they are developed from the audited financial statements, a new section of INPAG has been developed on supplementary information. This section is intended to ensure the whole of entity disclosure of information that can create a bridge to supplementary statements prepared using the INPAG Practice Guide 1 - Supplementary Statements.
- 5.4 Annex A proposes 6 questions that address the content and positioning of the Supplementary Statement Guide and how this is proposed to link to the general purpose financial report.

Question 4: Do TAG members have any comments on the proposed SMCs for Section 37 and the Supplementary Statement Guide? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

6. Section 22 *Liabilities and equity* and consequential amendments

- 6.1 Equity was initially considered in ED1 and proposed to be an element of financial statements. When a high level review of Section 22 was carried out, it was apparent that the proposals in ED1 did not address all of the issues in particular the concept of ownership for NPOs.
- 6.2 The feedback to ED1 was considered alongside feedback from a specific survey on equity in developing revised proposals. As a consequence, proposals have been revised to include net assets as an element, with a definition that it is 'the residual available to the NPO to achieve its objectives of providing a benefit to the public after deducting all its liabilities from its assets'. Equity is no longer referred to and has been replaced by equity claims, which are a subset of net assets.
- 6.3 As a result of these proposals, amendments are proposed to Section 2, with Section 22 amended to reflect these definitions.
- 6.4 The SMCs are intended to obtain feedback on the inclusion of net assets as an element, the inclusion of equity claims as a subset of net assets and who this impacts

the identification of equity claims as set out in Section 22. Annex A includes 3 questions to address the objectives of the SMCs.

Question 5: Do TAG members have any comments on the proposed SMCs for the amendments to Section 2 and also for Section 22? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

- 7.1 The *IFRS for SMEs* Accounting Standard provides guidance on the first time adoption of the Standard. This guidance has been updated to take account of the accounting proposals in ED2 and how they might affect adoption, particularly for NPOs currently using the cash basis.
- 7.2 INPAG proposes that narrative reporting is part of the general purpose financial report. The TAG had substantial discussion about whether the inclusion of a narrative report would act as a barrier to the adoption of INPAG. Reflecting these concerns it is proposed that for a transition period NPOs can use a compliance statement that refers only to the financial statements rather than for the full requirements of INPAG.
- 7.3 Respondents to the questions on narrative reporting in ED1 offered mixed views about the need for a transition period and its length. The approach proposed is intended to provide flexibility.
- 7.4 The SMCs are intended to obtain feedback on the likely issues associated with the first time adoption of INPAG and the proposal that a compliance statement limited to the financial statements can be used for a transitional period. Annex A includes 2 questions to address the objectives of the SMCs.

Question 6: Do TAG members have any comments on the proposed SMCs for Section 38? Do they address the objectives of an SMC as set out in paragraph 1.2 of this paper?

8. Sections 12, 14, 15, 16,17, 18, 19, 20, 27 and 34

- 8.1 As non priority topics these Sections were not subject to a full review. Reviews were, however, carried out to ensure consistency with other sections of INPAG. This relates to terminology, references to the financial statements and the accounting treatments proposed.
- 8.2 The inclusion of guidance on donated assets, which rely on a fair value measurement has a consequential impact on Section 12 *Fair value measurement*, Section 16 *Investment property*, Section 17 *Property, plant and equipment* and Section 18 *Intangible assets other than goodwill*. Some additions to the text and/or additional guidance has been proposed to address these points. Measurement as a topic is not

within scope of this first issue of INPAG and therefore this additional guidance is acknowledged as being imperfect.

- 8.3 In addition to the specific questions proposed for some sections, it is proposed to ask a generic question about whether there are any other issues that should have been considered in the drafting of these sections.

Question 7: Do TAG members agree that with the proposed section specific SMCs in Annex A?

9. Next steps

- 9.1 In total 43 SMCs have been drafted under 12 main question headings. This compares to 37 questions under 12 question headings in both ED1 and ED2. There are more questions because of the greater coverage of this Exposure Draft including the Addendum. As noted above, for the purposes of the Invitation to Comment it is proposed to aggregate related sections together. This presentation is shown in Annex A
- 9.2 The contents of Exposure Draft 3 are significant and important to INPAG as a set of guidance. It is therefore proposed to use the standard consultation period used by the IASB of 120 days. Assuming publication is between 20 and 31 May 2024, the consultation would close sometime between 17-28 September 2024. This timing would mean that it is unlikely that analysis of the responses would be completed before the end of 2024.

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

- 9.3 Subject to final comments from TAG members, these questions will be included in the draft of ED3 to proceed to copy editing.

February 2024

Annex A

Proposed SMCs

Application of fair value (Sections 12, 16, 17 and 18)

1	Question	References
a)	Do you agree that when assessing the economic benefits generated by an asset it should include service potential? If not, why not?	
b)	Is the application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?	
c)	Do you agree with the additional guidance for donated investment property? If not, why not?	
d)	Do you agree with the additional guidance for donated property, plant and equipment? If not, why not?	
e)	Do you agree with the additional guidance for donated intangible assets? If not, why not?	

Combinations of entities (Section 19)

2	Question	References
a)	Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed? If not, why not? ? What practical issues are experienced?	
b)	Do you agree with the expansion of the examples of control to include the power to appoint or remove the majority of an NPO's governing body in the context of a business combination? If not, what changes would you make and why?	
c)	Is goodwill a feature of the combination of two NPOs, particularly where one has net liabilities? Is so, describe the practical and accounting issues that arise?	

Equity (Section 22 and Section 2)

3	Question	References
a)	Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?	
b)	Do you agree with the use of the term equity claims rather than equity and that equity claims are a subset of net assets? If not, what would you change and why?	
c)	Do you agree that it is appropriate to refer to equity claims rather than equity throughout Section 22? If not, why not?	

Presentation of expenses and related disclosures (Section 24 Part I and Section 33)

4	Question	References
a)	Do you agree with the use of the rebuttable presumption that a natural classification of expenses is used unless this doesn't provide the most useful information to the users of the financial statements? If not, why not?	
b)	Do you agree that the rationale for using a classification of expenses other than a natural classification is disclosed? If not, why not?	
c)	Do you agree that performance against expenditure budgets is a matter for the narrative report and should not be disclosed in the financial statements even if the budget is published? If not, what is the rationale for inclusion in the financial statements?	
d)	Do you agree with the proposed mandatory disclosure requirements including losses, write offs and special payments should be disclosed? If not, what would you change and why?	
e)	Do you agree with the description of direct costs, indirect costs, and support costs to allow the full cost of an activity to be identified? If not, why not?	

Fundraising costs (Section 24 Part II)

5	Question	References
a)	Do you agree that commercial and trading activities that are for the purposes of fundraising (and therefore do not include charges made in relation to an NPOs primary purpose) are included as fundraising costs? If not, why not?	
b)	Do you agree that investment management costs associated with a fund whose purpose is to generate future returns (rather than the day to day investment of funds for good financial management) are included as fundraising costs? If not, why not? Are there any practical considerations?	
c)	Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the benefits to stakeholders in terms of the information provided? If not, what would you change and why?	
d)	Do you agree that the three categories of fundraising costs should be separately disclosed? If not, which categories should be required to be disclosed and why?	

Impairments (Section 27)

6	Question	References
a)	Do you agree that inventory held for distribution is measured for impairment using cost less service potential? If not, what would you change and why?	
b)	Do you agree that the term operational unit better reflects the nature of an NPO's operation than cash generating unit and with the proposed definition? If not, what alternative term would you use and why?	
c)	Do you agree that assets that form an operational unit are impaired to their value in use? If not, what would you change and why?	

Fund accounting (Section 36 and Section 5)

7	Question	References
a)	Do you agree that the requirement to present funds with restrictions and funds without restrictions on the face of the Income and Expenses Statement is removed? If not, why not?	
b)	Do you agree that the criteria in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? What is the risk that funds are not identified?	
c)	Do you agree that a fund should be defined with reference to the ability to track income, expenses, assets and liabilities? If not, what would you change and why? What are the practical considerations?	
d)	Do you agree with the two criteria for a fund to be considered a fund with restrictions? If not, what would you change and why?	
e)	In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund that is presented as funds with restrictions even if there are currently insufficient resources to cover these? If so, what limitations should be placed on the expenses that can be charged?	
f)	Do you agree with the mandatory disclosures proposed on an NPOs funds? If not, what would you change and why?	

Supplementary information (Section 37)

8	Question	References
a)	Do you agree that the requirements of Section 37 do not have to be met unless Supplementary Statements are prepared in accordance with INPAG Practice Guide 1 – Supplementary Statements? If not, why not?	
b)	Do you agree that disclosing additional information is sufficient alongside information already disclosed in the financial statements	



	and that it is not necessary to prepare a whole of entity supplementary statement? If not why not?	
c)	Do you agree that the requirements of Section 37 are useful in providing additional assurance in relation to Supplementary Statements prepared using INPAG Practice Guide 1 – Supplementary Statements? If not, what would you change and why?	

Transition to INPAG (Section 38)

9	Question	References
a)	Do you agree with the pragmatic exceptions proposed for the first time adoption of INPAG? If not, what are the practical challenges likely to be experienced?	
b)	Do you agree that compliance with INPAG can be expressed in relation to the financial statements only or must compliance be expressed with INPAG in its entirety? If not, why not? If you agree, should this be for a transitional period only?	

Other topics (Sections 14, 15, 20 and 34)

10	Question	References
a)	Do you agree that Section 14 is titled 'Investment in associates' rather than 'Beneficial interest in associates' and that no further alignment changes are needed to those drafted? If not, why not?	
b)	Do you agree that not further alignment changes are needed to Section 15? If not, why not?	
c)	Do you agree that not further alignment changes are needed to Section 20? If not, why not?	
d)	Is the section on specialised activities needed by NPOs? If yes, which elements of the section are needed and why?	

Addendum

11	Question	References
a)	Do you agree that the guidance for supplier finance arrangements is relevant to NPOs and if so that the proposed disclosures useful? If not, what would you change and why.	
b)	Do you agree that the additional guidance for lack of exchangeability is useful and the disclosures relevant? If not, what would you change and why?	



Supplementary Statement Guide

12	Question	References
a)	Do you agree with the format of the Supplementary Statement? If not, what would you change and why?	
b)	Do you agree with the disclosures for capital and inventory related costs and that these are optional? If not, what would you change and why?	
c)	Do you agree that the Supplementary Statements are not part of the General Purpose Financial Report, but can be published as an annex? If not, why not?	