



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED17-05

27 February 2024 – Online

Exposure draft 3 - Invitation to comment

Summary	This paper provides the outline of the adaptations to be included in summary that is part of the invitation to comment.
Purpose/Objective of the paper	The paper identifies the main topics that result from the new text or from adaptations from the <i>IFRS for SMEs</i> Accounting Standard. It provides an outline for each of these topics to explain the main changes and key considerations associated with those changes.
Other supporting items	TAGED17-01
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Actions for this meeting	<p>Advise on the topics identified, specifically whether these address the main adaptations that are proposed for inclusion in Exposure Draft 3.</p> <p>Comment on the key points identified for each adaptation and particularly whether it addresses the key points that are likely to be of interest to stakeholders.</p>

Technical Advisory Group

Exposure draft 3 - Invitation to comment

1. Introduction

- 1.1 The invitation to comment is an important part of each exposure draft. It sets out how to respond to the proposals in the Exposure Draft and also provides a high level summary of the key proposals in the document.
- 1.2 The invitation to comment is particularly important as it is the only part of the Exposure Draft that is translated into other languages. As with ED1 and ED2 it is proposed to translate the invitation to comment for ED3 into French and Spanish. The inclusion of the high level summary in the invitation to comment will make the key proposals in ED3 more accessible for French and Spanish language users.
- 1.3 As with the previous invitations to comment, it is intended that the summary identifies each main adaptation, key matters that were considered in reaching the proposal for the adaptation and areas for comment.
- 1.4 Annex A provides an outline of the summary section, which will include:
 - proposals for fund accounting;
 - considerations in relation to the classification of expenses;
 - proposals for fundraising costs;
 - considerations in relation to supplementary information;
 - considerations relating to equity;
 - impacts on other sections which were not subject to detailed review; and
 - proposals for a Supplementary Statement Guide.

2. Summary - overview

- 2.1 The invitation to comment will follow the same structure as the previous exposure drafts, with a summary, invitation to comment, a list of the SMCs, information for respondents, an at a glance guide (that summarises the focus of each section, the degree of change from the *IFRS for SMEs* Accounting Standard and reference to the relevant SMC), an update to the full content of each exposure draft and a list of relevant acronyms. There are no proposed changes to the structure of the document, with content updated for any changes that have occurred since ED 2 was issued as well as the proposals in ED 3.

Question 1: Do TAG members consider that there is any additional information needed in the summary that was not in Exposure Draft 2?

3. Fund accounting

- 3.1 This is a new section that has been written, so there is no comparison with the *IFRS for SMEs* Accounting Standard. The key issues for this section are the considerations about when an NPO

should establish a separate fund, the criteria for determining when a separate fund is part of funds with restrictions and the disclosure requirements. Given the significance of this to INPAG, it is proposed that the presentation criteria and the disclosure requirements are shown as two separate adaptations.

Question 2: Do TAG members consider that the key issues have been addressed? Are there other adaptations that should be described in the Summary?

4. Classification of expenses

- 4.1 This is also a new section and again there is no comparison with the *IFRS for SMEs* Accounting Standard. Two of the presentation options are consistent with the Standard, with a third under active consideration by the IASB.
- 4.2 To cover all of the changes that are included in ED3, it is proposed that the changes are reflected through the use of 3 adaptations. The following themes are proposed:
- Presentation options
 - Allocation and apportionment of costs
 - Disclosure requirements including related party disclosures

Question 3: Do TAG members agree with the themes proposed to capture the adaptations created through the new text on classification of expenses and related disclosure requirements?

5. Fundraising costs

- 5.1 Fundraising costs is also a new section and again there is no comparison with the *IFRS for SMEs* Accounting Standard. The key issue for this section is the scope of fundraising costs and their description.
- 5.2 It is intended to cover this as one topic area, which will also include the approach to multipurpose expenses.

Question 4: Do TAG members agree that proposals for fundraising costs can be covered in one section?

6. Supplementary information

- 6.1 The section on supplementary information is again new and creates a bridge to the Supplementary Statement guide that will sit outside of INPAG.
- 6.2 It is proposed to present two key adaptations. The first relates to the requirement to disclose additional information where Supplementary Statements are being prepared and are asserted to be prepared in accordance with the Supplementary Statement Guide. The second relates to the Supplementary Statement Guide itself. While this is not part of INPAG, describing it in the summary allows the relationship between INPAG and the Supplementary Statement Guide to be clearly set out.



- 6.3 The Supplementary Statement Guide is also of high importance to some stakeholder groups including donors. Giving it prominence in the summary will allow these stakeholders to see the relationship with INPAG.

Question 5: Do TAG members agree that the Supplementary Statement Guide should be shown as an adaptation separate to the new section on supplementary information in INPAG?

7. Fair value

- 7.1 There are a number of sections to be included in Exposure Draft 3 that are impacted by the proposals for the recognition and measurement of donations in-kind made in Exposure Draft 2. In particular, ED3 includes Section 12 *Fair value measurement*, Section 16 *Investment property*, Section 17 *Property, plant and equipment* and Section 18 *Intangible assets other than goodwill*.
- 7.2 The small additions to the text and/or additional guidance as a consequence of the accounting proposals could be considered an adaptation and significant given the use of fair value to measure such assets. However, as measurement is not a topic within scope of this first issue of INPAG the nature of these adaptations need to be clear.

Question 6: Do TAG members agree that the inclusion of the updates being made to Section 12, Section 16 Section 17 and Section 18 should be included in the summary?

8. Equity

- 8.1 Equity was initially considered in ED1 and described as an adaptation in the ED1 Invitation to comment. Since then the proposals have been reconsidered to take account of concerns relating to the concept of ownership and to take account of feedback on that Exposure Draft.
- 8.2 As a consequence, the proposals have been revised moving further away from the text in the *IFRS for SMEs Accounting Standard*, particularly regarding the definition of equity. This is also reflected in updates to Section 22 *Liabilities and equity*. It is also proposed that net assets is included as an element.
- 8.3 It is proposed that these amendments are described as an adaptation in the Invitation to comment.

Question 7: Do TAG members agree that the further changes made to equity and net assets should be included as an adaptation?



9. Transition to INPAG

- 9.1 Section 35 of the *IFRS for SMEs* Accounting Standard sets out the requirements and practical exemptions when first adopting the Standard. Adaptations have been made to this section to reflect specific requirements for NPOs in relation to grants and also to reflect the broader nature of IFR4NPO in incorporating narrative reporting.
- 9.2 These changes are proposed to be set out under a single adaptation in the summary.

Question 8: Do TAG members agree that the changes made to create Section 38 of INPAG should be described as a single adaptation?

10. Other topics

- 10.1 The other Sections in ED3, that are not included above are Section 14, Section 15, Section 19, Section 20, Section 27 and Section 34. No changes have proposed other than editorial to Sections 14,15, 20 and 34. Section 19 has been amended to be more NPO specific and to provide a simplification for where two NPOs with positive net assets combine. Section 27 has been amended to refer to the new measurement base in Section 13 *Inventories* and to reflect the nature of NPOs.
- 10.2 It is proposed that in addition to the topics described above that the adaptations to Section 19 and Section 27 are also included in the Summary. These may be less pervasive for NPOs, but may also represent a significant change from the *IFRS for SMEs* Accounting Standard that should be highlighted.
- 10.3 It is not proposed to add the material in the addendum to the adaptations but to describe this in the introduction when discussing the scope of ED3.

Question 9: Do TAG members agree that the inclusion of the adaptations being made to Section 19 and Section 27 should be included in the summary?

11. Next steps

- 11.1 The outline in Annex A will be further developed to take account of the feedback received from TAG members and to align with the Basis for Conclusions.

Question 10: Do TAG members agree that the outline covers the key topics relevant to this exposure draft or should there be topics that are added or deleted?

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Annex A - Invitation to Comment – Structure

	Adaption	Proposal	Development considerations	Questions
1	Fund accounting	Two criteria for the existence of a fund with restrictions	Role of regulators Moral and ethical as a criteria	7 b), 7c) and 7d)
2	Fund accounting	Disclosure of material funds, disaggregating balances brought forward, income, expenses, other charges, transfers and closing balance	Face of I&E presentation	7 a) and 7 f)
3	Classification of expenses	Rebuttable presumption of natural classification	Allow all presentation options	4a), 4b)
4	Classification of expenses	Use of direct costs, indirect costs and shared costs to allocate and or apportion costs to activities	What is indirect and what is support	4e)
5	Classification of expenses	Limited mandatory disclosure requirements for volunteer benefits and losses, write offs and special payments	Larger number of mandatory disclosures, depending on classification used Performance against budget	4c), and 4d)
6	Fundraising costs	Three categories of fundraising costs. Allocation of costs between activities.	Require category one only. Use of materiality. The line between income generation (broader) and fundraising	5a), 5b) and 5c)
7	Supplementary information	Whole of entity disclosure requirements	Mandatory whole of entity supplementary statement Mandatory inclusion as part of expense disclosures	8a), 8b) and 8c)
8	Supplementary Statement Guide	Production of tailored statements for specific activities, programmes, donors.	Inclusion in INPAG Optionality of capital and inventory presentation	12a), 12b) and 12c)

		Special treatment of capital and inventory		
9	Fair value	Additional text and examples for donated assets	Further application guidance, particularly relating to service potential	1b), 1c), 1d) and 1e)
10	Equity	Net assets to be an element and equity claims a subset of net assets	Interplay between ownership and equity. Use of control to define ownership. Redefining equity.	3a) and 3b)
11	Transition to INPAG	Two statement approach to transition Inclusion of grant accounting requirements and amendment of government loans,	Single statement of compliance Amendment to and further exceptions	9a) and 9 b)
12	Other topics	Approach to business combinations Impairment of inventory held for distribution and use of 'operating unit'	Use of the term business, specific features of NPO combinations	2a), 2c), 6a) and 6b)