

Practitioner Advisory Group

AGENDA ITEM: PAGFG02-04

20 June 2024 – Online

Structure and content of INPAG – Feedback from ED1

Summary	This paper provides the PAG with an overview of key areas of feedback relating to the structure and content of INPAG Exposure Draft 1.
Purpose/Objective of the paper	The Preface to INPAG provided context for its creation and use. This paper provides PAG with a summary of the key issues arising from the specific matter for comment for the Preface that was included in INPAG Exposure Draft 1. It includes respondents' views on those issues for consideration in the development of the final guidance. The paper seeks PAG views on aspects of this feedback for further consideration by the Secretariat.
Other supporting items	N/A
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Actions for this meeting	Comment on: <ul style="list-style-type: none">(i) the advantages and disadvantage of content being held in separate volumes;(ii) the ordering of the Sections within INPAG to aid ease of use; and(iii) the feedback on naming conventions for NPOs.

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Structure and content of INPAG– Feedback from ED1

1. Introduction

- 1.1 This paper:
- Provides a summary and high level analysis of the consultation responses to the Specific Matters for Comment (SMC) relating to Section 1 Non-profit Organisations included in Annex A.
 - Seeks PAG's advice on a number of the issues raised by the consultation responses.

2. Preface – issues for comment and feedback

- 2.1 The Exposure Draft had only one Significant Matter for Comment (SMCs), which related to the structure of INPAG and how it could be improved. An overwhelming majority of those that responded agreed with the structure (92%) with a small number (3%) disagreeing and (5%) neither agreeing nor disagreeing.
- 2.2 While there was overwhelming support for the structure, there was feedback that related to how it could be improved. The key issues emerging from this feedback were concerned with:
- ease of use of the guidance;
 - the benefits or otherwise of similarity with IFRS for SMEs; and
 - naming conventions.
- 2.3 There was also feedback on a number of other areas, which included the use of the term non-profit organisations(NPOs)..

3. Ease of use

- 3.1 Eleven respondents commented on how INPAG is structured in terms of the use of volumes and the structure of those volumes and overall ease of use. Of those that agreed, all but one fully supported the structure. Those respondents that either disagreed or neither disagreed had concerns about ease of use.
- 3.2 The respondents that were concerned about ease of use commented that locating guidance in different volumes might make it more complex. There was no dissent that the Basis for Conclusions should be in a separate volume, however, there were differing views about whether some or all of the Application Guidance should be included in the core text. One respondent was of the view that the Implementation Guidance (but not necessarily the illustrative examples) should also be incorporated into the core text, but highlighted so that it can be identified as non-authoritative.

- 3.3 One respondent was concerned at the use of the term 'core text'. They were of the view that this could be misinterpreted and that instead references should be made to mandatory and non-mandatory guidance.
- 3.4 In developing the guidance the Secretariat took the view that the authoritative guidance should be separated from the non-authoritative guidance. In other words the core text and related application guidance should be separate to implementation guidance and illustrative guidance.
- 3.5 In separating the application guidance from the core text, the theory used to develop the split was that the principles should be in the core text, with further explanation in the related application guidance. This approach follows the development of full IFRS and IPSAS where separate application guidance is produced. However, each full IFRS and IPSAS standard can be somewhat longer than the Sections in INPAG and the separation is used to support implementation and consistent application of international standards.
- 3.6 Each section of the IFRS for SMEs Accounting Standard, (with the exception of Section 2 *Concepts and pervasive principles*, Section 11 *Financial instruments* and Section 23 *Revenue*) is relatively short. In the *IFRS for SMEs Accounting Standard*, only Section 19 *Business combination and goodwill* contains application guidance.
- 3.7 Additional application guidance has been developed where needed for the Sections that have been reviewed. Among the sections that have not been reviewed, only Section 12 *Fair value measurement* includes additional application guidance produced by the Secretariat. This was developed as a result of new material in INPAG on the treatment of donated assets where fair value is used to determine their value.
- 3.8 The Secretariat can see the benefit of merging the application guidance into the core text. However, for long sections there may remain a benefit in keeping the application guidance separate to assist understandability.
- 3.9 In terms of the Implementation Guidance, the Secretariat is of the view that having non-authoritative guidance and authoritative guidance in a single document may cause confusion. A separate volume for Implementation Guidance should assist with the users understanding of what constitutes authoritative and non-authoritative guidance and demonstrate the different functions of each volume. The Secretariat is therefore currently minded to keep these separate.
- 3.10 The main benefits of separate volumes are:
- a clearer demonstration of the principles to be applied
 - providing more explanation and promoting better understanding of the reporting needs
 - the ability to target and promote guidance to assist NPOs in INPAG implementation,
 - improving consistency in application.

- 3.11 It should be noted that the primary means to access the guidance will be virtual. INPAG will be available in hard copy, with a fee that is intended to cover the costs of production. One respondent was strongly of the view that INPAG should be available in hard copy as they felt that navigating the document on-line would be too complex. The Secretariat is currently exploring options for on-line access to the guidance with the objective of optimising navigation of the guidance. The focus is on being able to link guidance related to a particular topic.
- 3.12 Two respondents were of the view that the document is complex and that it could be more concise to make it easier to understand and implement. One of these respondents was commented that it would only be of use to the largest NPOs and major accountancy firms working in the sector.

Question 1: Do PAG members agree that keeping explanations in separate Application Guidance will make it easier to navigate INPAG?

Question 2: What are PAG members' views on the arguments for and against including implementation guidance in the core text?

Question 3: Do PAG members have any other views on the structure of INPAG to aid ease of use?

4. Structuring the content – consistency with the *IFRS for SMEs Accounting standard*.

- 4.1 Five respondents expressed views that related to the similarities to the *IFRS for SMEs Accounting Standard*. These respondents were of either of the view that it was useful to follow the same structure as internationally accepted accounting standards or more specifically that following the same structure as the *IFRS for SMEs Accounting Standard* was helpful.
- 4.2 One respondent cited familiarity of the *IFRS for SMEs Accounting Standard* structure to users as being helpful. This will be relevant for those NPOs that have already use or apply the Standard but not to those who to date have had no exposure to it.
- 4.3 Another respondent was of the view that using the *IFRS for SMEs Accounting Standard* structure allows for easy cross reference to this Standard.
- 4.4 While 8% of respondents identified this consistency with the *IFRS for SMEs Accounting Standard* as helpful, the possibility of renumbering has been made clear in each Exposure Draft. Noting that no respondents have expressed a view that this should not be done, the Secretariat is now considering the way forward.
- 4.5 The Secretariat is mindful that new NPO specific sections have been introduced, with some of these added at the end of the equivalent guidance in the *IFRS for SMEs Accounting Standard*. The Secretariat has also proposed in Exposure Draft 2 that the Section 26 (Share based payments) should be removed. This approach to the

structure of INPAG means that if the order of the sections in the *IFRS for SMEs* Accounting Standard is retained that the material most relevant to NPOs could be at the end of INPAG, with a gap in the numbering.

- 4.6 As INPAG is guidance produced specifically for NPOs, the expectation may be that the NPO-specific guidance appears earlier in the ordering of the sections in INPAG. A different structure provides an opportunity to group sections in a way that may better illustrate the new reporting requirements to INPAG users and make it easier to navigate.
- 4.7 The Secretariat plans to explore options for the ordering of the INPAG sections. Currently two options are being explored.
- 4.8 The first option is to retain the numbering in the *IFRS for SMEs* Accounting Standard, but to provide a navigation schedule adjacent to the list of contents that shows which Sections relate to the financial reporting areas covered by INPAG. An example is provided in Annex B.
- 4.9 A second option is being explored that would result in a complete reordering of the Sections and consequential renumbering. The objective of the reordering would be to improve access to and navigation of the content in INPAG and promote the significant financial reporting requirements for NPOs. An example based on the financial reporting areas outlined in Annex B is in Annex C. If this option is progressed INPAG will contain a mapping table that shows the section number in INPAG compared to the section number in the *IFRS for SMEs* Accounting Standard. This mapping table will help users familiar with the *IFRS for SMEs* Accounting Standard and to help track future changes.

Question 4: Do PAG members consider that the financial reporting categories in Annexes B and C are the most useful categories for potential users of INPAG?

Question 5: Do PAG members have a preference on the two options for the ordering and navigation of the INPAG sections? What are the pros and cons?

Question 6: Are there other options for the ordering of the content in INPAG that should be considered?

5. Naming conventions

- 5.1 Exposure Draft 1 included an opportunity for respondents to provide any other comments on the draft that were not related to the specific matters for comment. 19 respondents provided further comments, the majority of which will be, or have been addressed when considering the feedback to other sections.
- 5.2 A small number of respondents provided feedback about the use of the term non-profit organisations (NPOs). These respondents were of the view that the term had the potential to create confusion as many NPOs operate to generate a profit that can be used to meet their primary objectives of providing a benefit to the public/society.

They also expressed concern that NPO was a negative term setting out what an entity wasn't doing rather than what it is doing.

- 5.3 One respondent suggested a number of alternative terms, but given the diversity of NPO's each of these terms on their own would unlikely be fully inclusive. Any alternative would need to take account of the range of organisations that might be non-profit.
- 5.4 The Secretariat is of the view that the concept of a non-profit organisations is well understood globally even though how these organisations are referred to may differ locally. For example, organisations are frequently called NGOs or charities. It should be noted that in the responses to the Section 1 on the description of NPOs there were strong views that operating not to make a profit to distribute was a defining characteristic. The term non-profit could be considered to embody this characteristic.

Question 7: Do PAG members' have a strong view on this topic? If so, do members have any terms that could be considered by the Secretariat?

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Annex A(i) – Summary of Feedback Responses to SMCs for Section 1 NPOs

SMC 1(a) Is the structure of INPAG helpful? If not, how could it be improved?	Response	Number	% of those who responded (total 69)
	Agree	54	92%
	Disagree	2	3%
	Neither agree nor disagree	3	5%
	No Response	10	-
	Totals	69	100%

Annex B - INPAG Navigation table

Category	Existing Section
Accounting principles	Section 1 – NPOs Section 2 – Concepts and pervasive principles Section 12 – Fair value measurement Section 35 – Narrative reporting
Financial statements	Section 3 – Financial statements Section 4 – Statement of Financial Position Section 5 – Statement of Income and Expenses Section 6 – Statement of Changes in Net Assets Section 7 – Statement of Cash Flows Section 8 – Notes to the financial statements Section 36 – Fund accounting Section 37 – Supplementary statements
Revenue	Section 23 - Revenue
Expenses and Non-financial Liabilities	Section 20 – Leases Section 21 – Provisions and contingencies Section 24 – Expenses Section 28 – Employee benefits Section 29 – Income tax
Disclosure	Section 33 - Related parties
Non-financial assets	Section 13 – Inventories Section 16 – Investment property Section 17 – Property plant and equipment Section 18 – Intangible assets other than goodwill Section 25 – Borrowing costs Section 27 – Impairment of assets Section 34 – Specialised activities
Financial assets and liabilities	Section 11 – Financial instruments Section 22 – Liabilities and equity claims
Accounting boundaries	Section 9 – Consolidated and separate financial statements Section 14 – Investments in associates Section 15 – Joint arrangements Section 19 – Business combinations and goodwill
Accounting re-statements/re-presentation	Section 10 – Accounting policies, estimates and errors Section 30 – Foreign currency translation Section 31 – Hyperinflation Section 32 – Events after the end of the reporting period Section 38 – Transition to INPAG

Annex C - Structure of INPAG

Category	Renumbered
Accounting principles	Section 1 – NPOs Section 2 – Concepts and pervasive principles Section 3 – Fair value measurement Section 4 – Narrative reporting
Financial statements	Section 5 - Financial statements (merge Statement of Financial Position, Statement of Income and Expenses, Statement of Changes in Net Assets, Statement of Cash Flows and Notes to the financial statements Section 6 - Supplementary statements Section 7 – Fund accounting
Revenue	Section 8 - Revenue
Expenses and Non-financial Liabilities	Section 9 – Expenses Section 10 – Employee benefits Section 11 – Provisions and contingencies Section 12 – Leases Section 13 – Income tax
Disclosure	Section 14 - Related parties
Non-financial assets	Section 15 – Inventories Section 16 – Investment property Section 17 – Property plant and equipment Section 18 – Intangible assets other than goodwill Section 19 – Borrowing costs Section 20 – Impairment of assets Section 21 – Specialised activities
Financial assets and liabilities	Section 22 – Financial instruments Section 23 – Liabilities and equity claims
Accounting boundaries	Section 24 – Consolidated and separate financial statements Section 25 – Investments in associates Section 26 – Joint arrangements Section 27 – Business combinations and goodwill
Accounting re-statements/re-presentation	Section 28 – Foreign currency translation Section 29 – Accounting policies, estimates and errors Section 30 – Events after the end of the reporting period Section 31 – Hyperinflation Section 32 – Transition to INPAG