



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG03 - 02

Hybrid Meeting – 26-27 September 2024

Section 2 Concepts and Pervasive Principles – Final Guidance

Summary	This paper provides TAG members with the amendments to the final guidance following TAG's advice at its May 2024 meeting on the feedback from ED1 for Section 2 <i>Concepts and Pervasive Principles</i> .
Purpose/objective of the paper	This paper provides the approaches to the proposed amendments to Section 2, Implementation Guidance and Basis for Conclusions for Section 2 following TAG's advice at its May 2024 meeting. It seeks TAG's views on the updates and whether further changes are necessary to finalise the guidance.
Other supporting items	TAGFG01-03, Section 2 Concepts and Pervasive Principles – Way forward
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Actions for this meeting	Advise on: <ul style="list-style-type: none">i. the primary users of NPO general purpose financial reports and their information needsii. the concept of service potentialiii. the specifications for undue cost or effortiv. the reporting NPO (including branches).



Technical Advisory Group

Section 2 Concepts and Pervasive Principles - Final Guidance

1. Introduction

- 1.1 This paper provides:
- amendments to Section 2 *Concepts and Pervasive Principles*, Implementation Guidance and Basis for Conclusions for Section 2 following TAG's advice at its May 2024 meeting.
 - a table of concordance that maps the changes to Section 2 guidance and associated implementation guidance
 - extracts and a draft of the Basis for Conclusions based on the outcomes of the responses to Exposure Draft 1 (ED1) and the advice of TAG to date.
- 1.2 The draft of the full final guidance for Section 2 and the Section 2 Implementation Guidance is contained in a separate document TAGFG03 – Annex, which includes all the draft final guidance being considered at this meeting.

2. Background

- 2.1 At its meeting on 14 May 2024 TAG members considered:
- the feedback from the responses to ED1; and
 - the comments from a survey conducted in February/March 2023.
- 2.2 TAG deliberated on the report containing the responses to the SMCs for Section 2, the initial drafting suggestions for the Authoritative Guidance and the Implementation Guidance. Amendments to the draft final guidance are included in TAGFG03 - Annex in tracked change form.
- 2.3 Further advice was also sought from PAG at its June 2024 meeting on the primary users of the financial statements and their information needs and PAG Member comments are included in Section 3 of this report.
- 2.4 Following the advice of TAG at its July meeting the Secretariat has reviewed the Application Guidance for Section 2 to decide whether it is best placed as part of core guidance or the Implementation Guidance.
- 2.5 Further outreach on primary users was scheduled to take place in a focus group on 5 September 2024. Attendance issues meant that this meeting was postponed. Any amendments suggested by the outcomes of the focus group will be reported to TAG at a subsequent meeting.
- 2.6 The attachments to this report also include the amendments to Section 2 for equity and fund accounting included in ED 3. These are included as tracked changes.

Further amendments may be required following the analysis of the responses to ED 3 for equity and fund accounting.

- 2.7 This report seeks TAG members' views on the changes to ED1 to develop final guidance.

3. Primary Users and the Description of their Needs

- 3.1 TAG members have considered the responses to the SMCs in ED1 which focused on the range of users, particularly the differing needs of donors (and other funders) and on the description used in ED1 for those "fulfilling oversight functions".
- 3.2 TAG members advised it is important that donors are included as primary users. They considered it key that the availability of INPAG Practice Guide 1 Supplementary Statements for special purpose financial reporting is clearly signposted in the guidance. At PAG's June 2024 meeting, PAG members also underlined the importance of donors as primary users, indicating that donors might review general purpose financial reports during due diligence and other assessments, which are prior to the award of funding. This supported comments previously provided by respondents to ED1.
- 3.3 TAG Members also advised that INPAG should be clear that it is addressing the needs of both existing users and potential users. A response to the SMCs also raised concerns about the scope of users and the lack of reference to lenders and other creditors.
- 3.4 The Secretariat has therefore included clarifications in paragraphs G2.5 and G2.6 that the primary users of the financial statements are existing and potential resource providers and the public that depend on the goods and services provided by NPOs. It has itemised them individually (together with a third category of primary user – see paragraphs 3.7 and 3.8 below). To support these categories the Secretariat has included an outline of the typical users for each category in Section 2, (paragraphs G2.6 and G2.7). Paragraph G2.6 confirms that resource providers include donors and other funders including lenders and creditors (see Appendix A).

Question 1: What are TAG members' views on the approach to primary users and the description of the principal categories of user (see paragraphs G2.4 to G2.7)?

- 3.5 The responses to ED1 highlighted that there are a range of users under the categorisation presented in Section 2, donors probably being one of the most complicated. As discussed at TAG's May meeting, depending on the circumstances and reporting needs, these users may be primary users but when they require specific information (eg in relation to a grant or programme) they are not. Similar issues were found to arise for other resource providers such as bankers.



- 3.6 Paragraph G2.10 (which was previously G2.6) confirms that users that have rights to demand information tailored to meet their particular information needs and that have the authority to request special purpose financial reports as part of funding arrangements, are not considered to be primary users. This paragraph has been augmented to include other funders. Additional clarification confirming when donors may and may not be primary users has been added to the Implementation Guidance at paragraph IG2.1 which also includes reference to INPAG Practice Guide 1 to accord with TAG's advice at its May 2024 meeting.

Question 2: Are TAG members content with the approach to donors and other funders (see paragraphs G2.6, G2.10 and IG2.1)? Should the Implementation Guidance or the Basis for Conclusions refer to INPAG Practice Statement 1?

- 3.7 The responses to ED1 identified some confusion with the terminology regarding "those fulfilling oversight functions" as primary users. Some respondents appeared to consider government in its regulatory role eg reviewing the financial statements for compliance, monitoring etc as "those fulfilling oversight functions". A PAG member at the June 2024 meeting was also of the view that "statutory authorities" were primary users (as they used NPO financial statements extensively). Conversely, another PAG member agreed with the position that when acting in their regulatory roles governments were not primary users. Some respondents were also of the view that government entities were not primary users as they have rights to financial information. In the responses to the SMC the term 'oversight', appears to have been interpreted more frequently as those with regulatory type monitoring roles.
- 3.8 As reported to TAG's May 2024 meeting the Secretariat agrees that in certain cases "those fulfilling oversight functions" might be primary users as they may not have rights to the financial information. This accords with the intended approach in ED1 as explained in the Basis for Conclusions (see BC2.9), where the intent was to include elected representatives and public officials who have a duty to represent the interests of members of the public. The Secretariat has therefore amended 'those fulfilling oversight functions' to the term *'those representing resource providers and the public that depend on the goods and services provided by NPOs'* to make the meaning clearer and has also included more context and guidance. Paragraph G2.5 confirms that the legislative body or assembly is a primary user when acting in its capacity as a representative of resource providers and the public that depend on the NPOs' services- (see paragraphs G2.5 and G2.9 in Appendix A). This follows the approach to these users in the IPSASB Conceptual Framework¹.

Question 3: Do TAG members agree with the approach to those users previously described as "fulfilling oversight functions" and now described as *"those acting in their capacity as representatives of the interests of resource providers and the public that depend on the goods and services provided by NPOs"* (see paragraphs G2.5 and G2.8)?

¹ IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities October 2014 December 2023

- 3.9 The order of some of the paragraphs in this part of Section 2 has been edited to accommodate the new drafting and to improve the flow of issues to be addressed (this includes paragraph G2.11). There were also other more detailed comments, which have been addressed as a part of the Secretariat’s review.
- 3.10 Respondents also suggested that INPAG should include more information on users’ needs and how NPOs might address them. Guidance is already provided in paragraphs G2.12 to G2.14. However, the Secretariat has included additional guidance about the information needs of the users of NPO general purpose financial reports and how such needs might be met in the Implementation Guidance at paragraph IG2.2 and IG2.3. The Secretariat developed this new Implementation Guidance based on commentary in the IPSASB Conceptual Framework as applied to NPO circumstances.
- 3.11 The Secretariat has also reviewed the drafting of paragraph G2.15 which refers to “core” financial information presented in the financial statements and supporting financial and non-financial information presented in general purpose financial reports. While reviewing Section 2 the Secretariat identified a concern that this might be interpreted as a hierarchy of information in general purpose financial reports and has therefore removed references to core information but would seek TAG members’ views on its removal.

Question 4: Do TAG members agree with the removal of references to “core” and “supporting” financial information being presented in the financial statements (paragraph G2.15)?

Question 5: Are TAG members content with the Secretariat’s proposals in response to the SMCs comments for primary users and their needs (see G2.4 to G2.11 and IG2.1 to IG2.3)?

4. Qualitative characteristics of information in general purpose financial reports

- 4.1 Respondents to the SMC on the qualitative characteristics of information in general purpose financial reports supported (at ninety two percent) the approach in ED1 with no dissenting views.
- 4.2 As noted in TAGFG01- 03 respondents commented on the approach to the fundamental or enhancing characteristics. These comments do not accord with the approaches in international frameworks for the qualitative characteristics. Another respondent commented on some of the specifications in this area being too long. The Secretariat suggests that any amendments to await the final version of the *IFRS for SMEs Accounting Standard*, but in principle the Secretariat does not propose to move away from the qualitative characteristics in the *IFRS for SMEs Accounting Standard* unless there is an NPO specific reason to do so.
- 4.3 Another respondent commented on the heading levels or hierarchy within Section 2, which were not aligned to the *IFRS for SMEs Accounting Standard*. This was not

intentional, and the Secretariat has corrected the heading levels to align with *IFRS for SMEs* Accounting Standard.

- 4.4 In accordance with advice provided at the July 2024 meeting of TAG the Application Guidance at paragraphs AG2.1 to AG2.3 has been moved to the Implementation Guidance as it provides guidance on use of the qualitative characteristics and would largely be described as non-authoritative.
- 4.5 The Secretariat has augmented the drafting of these paragraphs and included amendments to reinforce the comments that there is unlikely to be a need for separate consideration of the qualitative characteristics when considering most transactions and that the other sections of INPAG are more relevant when individual transactions are being considered (see paragraph IG2.4).

5. The Use of the Term Service Potential

- 5.1 Eighty percent of respondents agreed with the use of service potential in ED1. Comments from those who disagreed with the SMC included those relating to the description of the term service potential, its subjectivity as a concept and the consequential difficulties in applying it.
- 5.2 The most substantial issue was that a respondent disagreed with the proposal to define 'service potential' as a concept distinct from 'economic benefit,' and that INPAG modifies 'economic benefit' to specify that it relates only to cash inflows and outflows. They were of the view that 'economic benefit' encompasses more than just cash flows and would include service potential.
- 5.3 TAG members were of the view that service potential is an important concept. They both noted that using service potential as a separate term is unlikely to lead to different outcomes, and that it is not clear why INPAG would separate it from the concept of economic benefit. Other views included that there is a spectrum of transactions that mean the separation of the concept is more useful under certain circumstances.
- 5.4 TAG members commented that INPAG should consider benefit in economic or commercial terms and the impact it has on decision-making. It is useful to highlight these terms and how NPOs can use them for the greatest benefit. Also, it would be helpful to explain the approach proposed.
- 5.5 TAG did not suggest the need for substantial revision to Section 2 for the use of the term service potential. However, TAG requested that the Secretariat reflect on the drafting of the relevant specifications and guidance on service potential and whether it needed to make any further changes.
- 5.6 Section 2 includes the specifications for the definition of an asset and economic resources using the definition included in the Draft Third edition of the *IFRS for SMEs* Accounting Standard, augmented by the high-level specifications in the IPSASB Conceptual Framework on service potential. The Secretariat has added another

paragraph² (paragraph G2.59) to provide additional context and explanation of the term service potential to support the correct use of this concept (the new paragraph is extracted below).

“Assets held by NPOs that embody service potential may be held, for example, for community purposes, or for medical or recreational purposes and are used to provide or support services for the public that depend on them. Such services may be for collective or individual consumption and payment for those services might be at cost or for a nominal charge. Services may be provided in areas or activities in which market competition is limited or non-existent or alternatively may be provided on an economic basis or not.”

- 5.7 The Secretariat also amended the Basis for Conclusions to address the issues raised by the SMCs and TAG’s subsequent advice. The Basis for Conclusions now includes comments on the use of the concept of service potential for NPOs and the spectrum of transactions relating to the recognition and measurement of assets held by NPOs. This may include assets held for service potential but also those held for economic returns (see BC2.45 to BC2.48 – Appendix B).

Question 6: Do TAG members agree with the approach to the amendments to Section 2 for the concept of service potential (see paragraph G2.59)?

Question 7: Do TAG members agree to the changes to the Basis for Conclusions for the concept of service potential (see paragraphs BC2.45 to BC2.48)?

6. Undue Cost or Effort

- 6.1 Most respondents supported the use of the undue cost or effort specifications in INPAG. Responses to the SMC highlighted the tension between its purpose to reduce the reporting burden and the difficulties (including the technical skills required) that NPOs may experience when applying the exemption.
- 6.2 TAG members acknowledged that there was a tension but did not see an NPO specific reason for the removal of these provisions. A TAG member noted that the specifications didn’t provide a blanket exemption because INPAG requires disclosure of the reasons for its use.
- 6.3 TAG members also advised that the assessment of undue cost or effort needs to be regularly reviewed to take account of new information and so the explanation of its use can change over time. The Secretariat has included review of its use in the Implementation Guidance at paragraph IG2.14, using the example of investment properties whose fair value cannot be measured reliably without undue cost or effort (in accordance with Section 16 (Investment Property) and Section 17 (Property, Plant and Equipment) of INPAG). The new paragraph IG2.14 is included below.

² This paragraph was based on paragraph 5.9 of the IPSASB Conceptual Framework.

NPOs will also need to keep the use of the undue cost and assessment judgement under review because latest information at the reporting date may result in the removal of the exemption or change the reasons for its use, which an NPO should report. As is noted in paragraph G2.39 if the undue cost or effort exemption applies subsequent to initial recognition – to a subsequent measurement of an item, for example, where the fair value of investment properties cannot be measured reliably without undue cost or effort – a new assessment of undue cost or effort should be made at that subsequent date based on information available at that date.

- 6.4 The Secretariat removed paragraph IG2.3 from the Implementation Guidance because it reiterates paragraph G2.40 of Section 2.

Question 8: Do TAG members agree with the additional Implementation Guidance to support NPOs in their use of the undue cost or effort exemption (see IG2.14)?

7. The Reporting NPO (including branches)

- 7.1 Respondents largely agreed with the approach to the reporting NPO. There were detailed comments and those needing amendment have been described in Appendix C.
- 7.2 The Application Guidance on the reporting NPO has been moved to Implementation Guidance because these paragraphs are not authoritative but illustrate the principles in the Core Guidance. This includes the guidance on the treatment of branches (see paragraphs IG2.15 to IG2.29).
- 7.3 At its May 2024 meeting TAG considered a view from a respondent relating to the consolidation of entities that pursue financial returns. The respondent commented that a combination of, rather than consolidation of, financial reports would be an option to address this issue.
- 7.4 TAG's advice was that the presentation of profit oriented subsidiaries in the Statement of Income and Expenses and how they fit with the activities of the parent entity could be explained based on previous TAG discussions. The consolidation of the financial statements of for profit entities has previously been discussed by TAG who were of the view that it is important to identify the flow of funds between entities within the group as it can provide useful information. TAGFG03-13 will deal with this issue in the analysis of Section 9 Consolidated and Separate Financial Statements.
- 7.5 The Secretariat has also corrected the definition of the reporting NPO included in the glossary following a comment made by a respondent – see extract below.

“A reporting NPO is a single NPO, part of an NPO or a combination of ~~NPO~~-entities that is required, or chooses, to prepare general purpose financial reports. Where more than one entity is a part of a reporting NPO this may include all non-profit organisations or a combination of for-profit and non-profit organisations.”

8. Other Drafting Amendments to the Final Guidance

- 8.1 Drafting amendments have been made to Section 2, the Implementation Guidance and the Basis for Conclusions following Secretariat review. The changes are listed in Appendices C and D.
- 8.2 The drafting changes have been made for readability, conciseness and clarity. For example, a TAG member commented on the use of the passive voice in their detailed comments for Section 35 *Narrative Reporting* and the impact that this has for accessibility and understandability, particularly for an international audience. The Secretariat has therefore reviewed the use of the passive voice in the Core Guidance, the Implementation Guidance and the Basis for Conclusions. It is the Secretariat's understanding that the IASB is undertaking a plain English review of this section of the *IFRS for SMEs* Accounting Standard and any changes will need to be reflected in Section 2.
- 8.3 The Secretariat has made more extensive drafting changes for readability to the Implementation Guidance and the Basis for Conclusions than to Section 2 itself as large parts of section 2 have been based on the *IFRS for SMEs* Accounting Standard. It has also made drafting changes to paragraphs not directly based on the *IFRS for SMEs* Accounting Standard in Section 2. The Secretariat will take the opportunity to consider whether more edits are needed to Section 2 when the final version of the standard is included in INPAG.
- 8.4 The Secretariat has also considered the most appropriate location for the Application Guidance. This is set out in the table below:

Application Guidance	Changes
Paragraphs AG2.1–AG2.3 on qualitative characteristics of financial and non-financial information	The Secretariat has moved these to the Implementation Guidance (see paragraph 4.4 above)
Paragraphs AG2.4–AG2.5 on restrictions	The Secretariat has deleted these paragraphs as INPAG Guidance on restrictions will be included in Section 36 Fund Accounting. This also follows the approach in ED3.
Paragraphs AG2.6–AG2.9/10 on equity/ equity claims in the NPO context. These paragraphs are as amended by ED3.	The Secretariat has included these paragraphs in the Core Guidance as they provide additional explanation of equity claims in the NPO context in greater detail and will provide more context for stakeholders considering these issues.

Paragraphs AG2.10–AG2.25 – the identification of the reporting NPO and branches and the reporting NPO.	These have been moved to Implementation Guidance paragraphs IG2.15 and IG2.29 – see paragraph 7.2 above.
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- 8.5 While making amendments to the final guidance for Section 2 following the responses to ED1, minor edits and other changes have been made to both the core text and the Implementation Guidance. These have been listed at Appendices C and D.

9. Basis for Conclusions

- 9.1 The Basis for Conclusions has been updated to provide:
- confirmation of the agreement with the proposals in ED1 (as there was a substantially positive response for each SMC);
 - a summary of significant issues raised by the responses to ED1; and
 - the decisions taken, including any areas of discussion and debate, to give an outline of the intentions of INPAG.
- These will be subject to amendment for any further advice from TAG.
- 9.2 The Basis for Conclusions has been updated to confirm decisions in relation to:
- donor reporting, ie donors (and other funders) are primary users under certain circumstances but not when can they require information tailored to their specific needs
 - changes to the description for those *"fulfilling oversight functions"* to *"those acting in their capacity of representatives of when as they represent the interests of members of the public who depend on goods and services provided by the NPO or resource providers"* then they are acting as primary users
 - the differing reasons for which NPOs hold assets and the implications for recognition and measurement
 - the rationale for including service potential as a separate concept.
- Relevant extracts of the Basis for Conclusions have been included in Appendix B
- 9.3 The updated Basis for Conclusions paragraphs in ED3 relating to net assets/equity and fund accounting are included as tracked changed amendments. They have been amended for grammatical improvements only and will be fully updated following the analysis of the responses to ED3.

September 2024

Appendix A – Section 2 Concepts and Pervasive Principles – Extracts for Primary Users

The objective of non-profit organisations’ general purpose financial reports

Objective, usefulness and limitations of general purpose financial reports

G2.3 The objective of general purpose financial reports of an NPO is to provide financial and non-financial information about the NPO that is useful to existing and potential users of their financial reports for accountability and decision making.

Users of general purpose financial reports

G2.4 NPOs are responsible for the stewardship of the resources entrusted to them. NPOs are accountable for their management and use of resources to existing and potential resource providers and to the public that depend on the goods and services provided by NPOs or the activities that they carry out.

G2.5 The legislative body of a country, state or region (or similar) or members of parliaments or assemblies in a state or region (or similar bodies) will be primary users when acting in their capacity as representatives of the interests of resource providers and the public that depend on the goods and services provided by NPOs or on the activities that they carry out. Therefore, for the purposes of INPAG the primary users of the NPO general purpose financial reports are existing and potential:

- resource providers – see paragraph G2.7;
- the public that depends on the goods and services provided by NPOs – see paragraph G2.8; and
- those acting in their capacity as representatives of the interests of resource providers and the public that depend on the goods and services provided by NPOs – see paragraph G2.9.

These primary users will be described as resource providers and the public that depend on the goods and services provided by NPOs.

G2.6 NPOs are provided with resources from numerous sources including, for example, donors and other funders, governments, banks, lenders, and creditors. These will be resource providers as described in paragraphs G2.4 and G2.5, where they do not have rights to demand information tailored to meet their particular information needs.

G2.7 The public that depend on the goods and services provided by the NPO or the activities that they carry out are those that benefit either directly or indirectly from an NPO’s activities. They may be referred to as service users, service beneficiaries, or recipients, or clients and can range from an entire population either within a jurisdiction or wider, to a small subset of a community.

G2.8 Primary users also include those acting in their capacity as representatives of the interests of resource providers and the public that depend on the goods and services provided by NPOs or on the activities that they carry out. This will include individual elected representatives and public officials who have a duty to represent the interests of members of the public who are provided with services and goods by the NPO, or who benefit from its activities or who provide it with financial and other resources.

G2.9 General purpose financial reports are not developed specifically to respond to any individual user’s information needs.

G2.10 Users that have rights to demand information tailored to meet their particular information needs, are not considered to be primary users of general purpose financial reports. For example, some donors or

other funders will have the authority to request special purpose financial reports as part of funding arrangements. Information tailored to a user's individual needs would not be included in general purpose financial reports.

- G2.11 General purpose financial reports do not and cannot provide all the information that users need. Those users need to consider pertinent information from other sources – for example, general economic conditions and expectations, political events and political climate, and sector and individual NPO focused outlooks.

Information needs of users for accountability and decision making

- G2.12 The discharge of accountability obligations requires the provision of information about the NPO's management of its resources in meeting its purposes, its capacity to continue to operate in future periods, and its compliance with any regulations that govern its operations.
- G2.13 Information provided in general purpose financial reports for accountability purposes will also contribute to and inform economic and other decision making.

Information provided by general purpose financial reports to meet the needs of users

- G2.14 Financial information that is presented in the **financial statements** on an NPO's financial position, financial performance and cashflows will need to be enhanced by financial and non-financial information in general purpose financial reports. The information in general purpose financial reports complements and supplements the financial information presented in the financial statements to fully describe an NPO's performance.
- G2.15 General purpose financial reports include financial statements that provide information about the financial position of a reporting NPO, which is information about the NPO's economic resources and the claims against the NPO. They also provide information about the effects of transactions and other events that change a reporting NPO's **economic resources** and claims. They allow users to make decisions and develop expectations based on their assessment of the amount, timing and uncertainty of future net cash inflows to the NPO.
- G2.16 Non-financial information will include the information specified by the requirements in Section 35 Narrative reporting.

IMPLEMENTATION GUIDANCE

Primary users of general purpose financial reports

Are donors and other funders primary users of financial statements?

- IG2.1 Paragraph G2.6 confirms that donors (and other funders) are acting as primary users when they do not have rights to demand information tailored to meet their particular information needs. However, donors' (and other funders') needs are complex because in some instances they may only have access to generally available information and in other instances they may be able to require information to be tailored to meet their particular needs, (special purpose financial reports). These special purpose financial reports are outside the scope of INPAG. However, INPAG Practice Guide 1 *Supplementary Statements* offers a standard format for an optional supplementary statement that can meet the financial accountability needs of providers of grant funding.

What information might resource providers and the public that depend on the goods and services provided by NPOs or on the activities that they carry out need?

- IG2.2 Paragraphs G2.14 – G2.15 set out that general purpose financial reports will provide information on the financial position, financial performance and cash flows. The financial statements will provide information about the effects of transactions and other events that change a reporting NPO’s economic resources and claims.
- IG2.3 Resource providers and the public that depend on the goods and services provided by the NPO or on the activities that they carry out need financial or on the activities that they carry out information to support accountability and decision making in the following areas:
- The performance of the NPO during the period. This will include information on how an NPO meets its purposes (including financial and service objectives). It will include information to assess whether the NPO has used resources in a way which maximises economy, efficiency, and effectiveness in the delivery of its activities. Information in the Statement of Income and Expenses and Statement of Changes in Net Assets will inform assessments of how an NPO has met its financial objectives and whether it has acquired its resources economically.
 - The liquidity (ie resources available to meet current obligations) and solvency (ie resources to meet future obligations). The Statement of Cash Flows and associated notes will contain the relevant information.
 - The sustainability of the NPO’s activities over the long term the demonstration of the achievement of its objectives. An NPO will need to provide users with information on its levels of funds and reserves. It will need to be able to demonstrate that it will be able to access long term funding sources and that these resources can meet current and future costs related to future activity.
 - The ability of the NPO to comply with the specifications set by government regulatory or other similar bodies that the NPO must meet in providing services and raising resources. The general purpose financial report will be able to provide information to support this.

Appendix B Extracts from the Basis for Conclusions Highlighting the Decisions Made

EXTRACTS RELATING TO PRIMARY USERS

- BC 2.10 Respondents to ED1 agreed with the range of primary users and the description of their needs in Section 2. They agreed that user categorisation covered the breadth of stakeholders that use general purpose financial reports, including the public that depend on the goods and services provided by NPOs or the activities that they carry out.
- BC 2.11 Respondents commented on the diverse types of donors, providers of grants and other funders and the differing information needs of these users depending on the circumstances. Donors' (and other funders') needs are complex because in some circumstances they may only have access to generally available information and in others they may be able to require information to be tailored to meet their particular needs. Practitioner Advisory Group commentaries also supported this. Both of the project's advisory groups underlined the importance of donors and other funders as primary users. The Secretariat is of the view that donors and other funders when using the information for purposes such as due diligence are likely to be acting as primary users but when they request information which is specific to their individual needs and have the rights to require special purpose financial reports they are not.
- BC 2.12 In Section 2, INPAG describes donors and other funders as primary users, where they do not possess the right to demand information tailored for their specific needs Practice Guide 1 Supplementary Statements (which is itself outside of the scope of INPAG) allows NPOs to present key financial information about a specific activity, project or grant (or projects/grants). This is intended to be useful to the grantor for accountability purposes and provide a harmonised approach to special purpose reports. The Practice Guide together with Section 2 and its Implementation Guidance address the differing needs of donors as users.
- BC 2.13 Respondents commented on the role of those "fulfilling oversight roles" demonstrating confusion with their roles as regulators. Respondents also held differing views about whether they were primary users. The Secretariat is of the view that governments in their role as regulators have the authority to require NPOs to disclose information they need for accountability and decision-making purposes and therefore are not primary users in this context. However, when they represent the interests of members of the public who depend on goods and services provided by the NPO or the activities they carry out, or resource providers, then they are acting as primary users. The Secretariat has included clarifications to reflect this.
- BC 2.14 A respondent was of the view that it was unhelpful to remove the primary users in IFRS for SMEs including investors, lenders, and other creditors. The Secretariat has amended Section 2 to include explicit reference to lenders and other creditors.
- BC 2.15 Commentary from respondents contained proposals that Section 2 should include the information needs of users. The Implementation Guidance includes new paragraphs covering information requirements of resource providers and the public that depend on an NPO's activities.



EXTRACTS RELATING TO UNDUE COST AND EFFORT

BC 2.21 Respondents to ED1 expressed agreement with the approach to the undue cost or effort exemption in Section 2. However, they also highlighted tensions related to its use. While the exemption aims to ease the reporting burden, practical challenges arise, including the need for subjective judgments and assessing costs versus benefits. Respondents also raised concerns about its potential misuse. The Secretariat acknowledges that technical skills are required to make such judgments but sees no NPO-specific reason to remove the exemption from INPAG.

EXTRACTS RELATING TO SERVICE POTENTIAL

BC 2.45 Concerns about the subjectivity of the term service potential were raised in response to ED1. The Secretariat acknowledged that this is a more subjective concept than economic benefits, where resources are a measurement of cash inflows or a reduction of cash outflows. The Secretariat is of the view that service potential is a better expression of the resources embodied in assets used to provide services which do not generate economic returns. This is consistent with IPSAS 46 *Measurement* which includes the measurement of the operational capacity of an asset.

BC 2.46 Respondents also, raised concerns about the description of service potential and provided suggestions for alternative terms. Respondents' concerns also extended to the fact that service potential did not specifically refer to the provision of goods. The description of service potential in Section 2 explicitly refers to the provision of goods as well as services and the Secretariat concluded that no changes were required.

BC 2.47 The Secretariat is of the view that the recognition and measurement of assets used by NPOs should consider the primary reasons for holding the assets and the type of assets used. It is often the case that NPOs hold assets not to generate financial returns but to provide or support services. Where an NPO holds an asset for its service potential rather than its ability to generate cash flows, its recognition and measurement should provide information on the value of the asset's service potential to the NPO. Where an NPO holds an asset for its ability to generate cash flows then its recognition and measurement should provide information on its economic capacity.

BC 2.48 The proposal to define 'service potential' as a distinct concept from 'economic benefit,' with 'economic benefit' only relating to cash inflows and outflows was disagreed with by one respondent. They were of the view that 'economic benefit' encompasses more than just cash flows and would include service potential. The Technical Advisory Group discussed this issue and there were different views provided. However, on balance TAG members were of the view that INPAG should describe service potential as a separate concept such that it can be taken forward in the future development of INPAG and making clear the relationship with the same of similar terms in other GAAPs.

Appendix C Drafting Amendments to Section 2

Paragraph Reference	Amendment
G2.3	Drafting augmentation to clarify purpose.
G2.4 – G2.10	Amendments to be clear about the different categories of users – see paragraphs 3.2 to 3.9 in the body of the main report.
G2.11	Paragraph moved to improve flow of guidance on primary users and their information needs.
G2.15	Removal of references to “core” information and supporting financial and non-financial information as they would imply a hierarchy of information. There is some reference to this in the IPSASB Conceptual Framework, but it does not have the emphasis included in these paragraphs (see paragraph 3.11 in the body of the main report).
G.2.16	Drafting augmentation.
Old paragraph G.12	Moved to G2.11
G2.40	Corrected cross references as these are IFRS for SMES Accounting Standard.
G2.41, G2.42 and G2.44	Replaced “equity” with “net assets”.
G2.45	Replaced “reporting entity” with “reporting NPO”.
G2.51	Corrected sentence as there were words missing and to cover the reporting boundary.
G2.52 and G2.53	Change reference from “clearly defined” (because this is not about the definition of the boundary) to “easily determined”. Further drafting augmentations.



Paragraph Reference	Amendment
G2.56	Amendments for net assets and equity claims per ED3.
G2.59	Additional context for service potential – see paragraph 5.6 in the main body of the report.
G2.78 to G2.85	Amendments for net assets and equity claims per ED3. Note 1 – this includes the Application Guidance on equity claims in the NPO context at paragraphs G2.80 to G2.85. Note 2 – augmentations to the drafting of paragraph G2.81
Figure 2.2	Amendments to include reference to “equity claims”.
G2.91 and G2.93	Replaced “equity” with “net assets”.
Subheading above paragraph G2.138	Removal of reference to “equity”.
G2.139	Changed “equity” to “equity claims”.
G2.140, G2.141, G2.144, G2.145 and G2.151	Replaced “equity” with “net assets”.
Subheading above G2.151 Classification of components of equity and funds in net assets	Removal of reference to “equity and funds”.
Across Section 2	Changed paragraph numbers for new and inserted paragraphs.
Across Section 2	Cross references changed.

Appendix D – List of Drafting Amendments to Implementation Guidance for Section 2

Paragraph Reference	Amendment
IG2.1	New paragraph to confirm that donors' status as primary users will change depending on the circumstances (see body of main report paragraph 3.6)
IG2.2 and IG2.3	Additional guidance on the information needs of users (see body of main report paragraph 3.10)
IG2.4 to IG 2.6 – Qualitative Characteristics of Financial and Non- Financial Information	Previously paragraphs AG2.1 to AG2.3. The passive voice has been removed from these paragraphs for clarity. Paragraph IG2.4 has been augmented see body of main report paragraph 4.4). New heading added to this section to fit with the approach to the Implementation Guidance.
Old reference IG2.3	Removed as this largely replicates G2.40.
IG2.9, IG2.10 and IG2.12	Drafting augmentations and removal of the passive voice for clarity.
IG2.11	Removal of "including management" because these are not primary users of GPFRS.
IG2.14 to IG2.21 – The Reporting NPO	Removal of the passive voice across all paragraphs, drafting augmentations. Paragraph IG2.18 aligned users to G2.5 Paragraph IG2.21 – removal of faithful representation being described as "slanted, weighted, emphasised, de-emphasised or otherwise manipulated" and replaced with "information presents what it purports to represent". Added a new subheading.



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IG2.22 to IG2.29	Removal of the passive voice, grammatical changes. Change heading from “Branches as a reporting entity” to “Branches and the reporting NPO”.
IG2.30 to IG2.32 and headings	Minor drafting augmentations
Illustrative examples	Drafting augmentations and removal of the passive voice.