

# Technical Advisory Group

## Issue Paper

AGENDA ITEM: TAGFG03 - 07

Hybrid Meeting – 26-27 September 2024

### Section 1 Non-profit organisations – Final Guidance

Summary	The objective of this paper is to present TAG members with proposed amendments to ED1. These amendments reflect the advice provided by TAG during its May 2024 meeting, as well as feedback received from a focus group following that meeting. The paper seeks to gather TAG members' views on these updates and to determine whether further revisions are necessary to fully address the feedback on Section 1 (Non-profit organisations) from ED1.
Purpose/objective of the paper	This paper outlines the proposed amendments to Section 1, including the Authoritative Guidance, Implementation Guidance, and Basis for Conclusions, following TAG's advice at its May 2024 meeting. It seeks TAG's feedback on these updates and whether further changes are required to finalise the guidance.
Other supporting items	TAGFG01 – 02, Section 1 Non-profit organisations – Way forward, TAGFG03 - Annex
Prepared by	Nandita Hume
Actions for this meeting	<p><b>Advice on:</b></p> <ul style="list-style-type: none"> <li>i. the definition of the term 'public' within the scope of 'benefit to the public' when describing NPOs for the purposes of INPAG;</li> <li>ii. the level of private distributions that are consistent with the use of INPAG;</li> <li>iii. scoping out of INPAG Government and Public Sector Entities.</li> <li>iv. the effectiveness of the indicators provided in the implementation guidance in validating the characteristics of an NPO for INPAG purposes; and</li> <li>v. the relevance of the illustrative examples in implementing the requirements of Section 1.</li> </ul>

# Technical Advisory Group

## Section 1

### 1. Introduction

- 1.1 This paper provides:
- proposed amendments to Section 1 (Non-profit organisations), Implementation Guidance and Basis for Conclusions for section 1 following TAG's advice at its May 2024 meeting.
  - a draft of the proposed final guidance for both section 1 and its Implementation Guidance (see TAGFG03 - Annex)

### 2. Background

- 2.1 At its last meeting, TAG members considered:
- Feedback from responses to ED1; and
  - Comments from a survey conducted in February/March 2023.
- 2.2 The responses to Section 1 showed that over half of the respondents supported the broad description of NPO characteristics, while a minority disagreed, and a substantial proportion remained neutral. Many in the neutral group supported the overall approach but expressed concerns about how the characteristics were articulated.
- 2.3 A separate survey showed strong support for the requirement that "an NPO must have a primary objective of providing a benefit to the public." However, some respondents felt this definition might not fully encompass all types of NPOs. Those who supported the broad characteristics often requested additional clarification on what constitutes "providing a benefit to the public" and how to interpret private benefit. Additionally, a significant number noted that applying this characteristic could be challenging.
- 2.4 TAG members acknowledged that relevant authorities within each jurisdiction would ultimately determine which entities would use INPAG. Given that countries have their own criteria for defining non-profit entities, ensuring consistency by outlining the intended types of entities to be included is essential.
- 2.5 Further outreach on the first two broad characteristics of NPOs took place in a focus group on 18 July 2024.
- 2.6 This report seeks TAG members' views on the final guidance included in TAGFG03 - Annex on Section 1 (Non-profit Organisations).

### 3. Definition of the term 'public' within the scope of 'benefit to the public' when describing NPOs for the purposes of INPAG

#### Public benefit

- 3.1 Feedback on ED1 regarding the term 'public' in the broad characteristics of NPOs was mixed. While some respondents raised concerns about its ambiguity and suggested alternatives, there was overall support for retaining the term. During focus group discussions in July 2024, participants strongly supported keeping 'benefit to the public' but recommended enhancing its definition for clarity.
- 3.2 Concerns were also raised about whether "providing a benefit to the public" sufficiently includes both broad public groups and smaller target groups. A suggestion from the focus group was to differentiate between the direct beneficiaries of an NPO's activities and the broader, indirect effects to the wider community. This distinction helps clarify how public benefit is realised—whether through direct support to specific groups or through indirect positive impacts on society.
- 3.3 In response, the Secretariat has clarified the term 'public' in the core guidance rather than adopting new terminology. G1.4 defines 'the public' as the individuals or groups who directly or indirectly benefit from the NPO's activities and services carried out in pursuit of the NPO's objectives.
- 3.4 G1.5 also explains that the scope of 'benefit to the public' may be broad, covering services for the general public, particular communities, or for wider societal benefit. It also acknowledges that an NPO's focus may be narrower, targeting specific groups.
- 3.5 The implementation guidance (IG1.4–IG1.5) further notes that the sufficiency of this benefit should be evaluated based on the NPO's purpose. Even if the focus is on a smaller, specialised group, the public impact must still be meaningful and aligned with the NPO's overall objectives.
- 3.6 During the focus group discussions, it was suggested that a reference is made to the 'intention to benefit the public,' acknowledging the subjective nature of what constitutes a public benefit. This approach would recognise that different organisations, even those with opposing views (e.g., on contentious issues like abortion), might both claim to be serving the public good. Consideration of the intention behind an organisation's actions may be helpful in reaching an assessment. However, the focus group ultimately concluded that assessing and auditing such intentions would be problematic, as it involves evaluating the underlying purpose of an organisation's activities, which may be difficult to measure accurately. As a result, the Secretariat has not pursued this approach further.

**Question 1:** Do TAG members agree that the revised definition of 'the public' in G1.4, as the individuals or groups benefiting from the NPO's activities, provides sufficient clarity for defining NPOs?

**Question 2:** Do TAG members support the approach outlined in G1.5, which allows for both broad and narrower scopes of 'benefit to the public,' including services for general or specific communities?

**Question 3:** Do TAG members agree that including a reference to 'intention to benefit the public' is not practical due to difficulties in accurately assessing and auditing such intentions?

#### Private benefit

- 3.7 In addition to defining 'public' as the beneficiaries of an NPO's activities, Section 1 clarifies this further by contrasting it with 'private benefit.' This differentiation was included in ED1. Feedback from ED1 supported the use of the distinction between public and private benefit to clarify the beneficiaries of NPO activities. However, respondents questioned whether the issue of private benefit relates more to the first characteristic—providing a 'benefit to the public'—or the second characteristic, which involves the distribution of surpluses.
- 3.8 The Secretariat has now clarified that the issue of private benefit pertains to both characteristics. First, an NPO's primary objective must be to provide a benefit to the public through its activities, including the provision of goods and services. Second, the distinction is also relevant to the requirement that NPOs direct their surpluses for the benefit of the public. In this context, surpluses should not be primarily directed toward private benefit, such as private distributions. Any private benefit that arises from surplus distribution should be incidental to the NPO's overall goal of serving the public.
- 3.9 Section G1.7 emphasises that NPOs should not provide significant private benefits, such as economic or financial returns, to holders of equity or similar claims. Any such benefits should be incidental to the NPO's primary objective of public benefit. The term 'incidental' is used to acknowledge that while private benefits may occur, they should not result in a significant use of the NPO's resources.
- 3.10 Concerns raised in the feedback from ED1 highlighted the ambiguity surrounding the definition of "incidental" private benefit. Specifically, feedback questioned how to determine when private benefit transitions from being incidental to a level that an entity cannot be considered to be an NPO. There was particular concern about defining what constitutes "too much" private benefit. In response, the Secretariat acknowledged that assessing the level of incidental private benefit is inherently subjective and may vary across different jurisdictions and cultural contexts. To address this, the Secretariat has provided further clarification in the Basis for Conclusion.

- 3.11 During the focus group, a participant explained how U.S. regulations reflect the second broad characteristic of NPOs through the concept of private inurement. Private inurement refers to activities that primarily serve private interests and significantly benefit individuals. However, a private benefit does not disqualify an NPO if it is incidental to the public benefit. In other words, some private benefit is allowed when it is a necessary consequence of achieving the public good, as long as the primary benefit flows to the general public. The distinction is that while private inurement directly benefits an insider or private equity holder and leads to disqualification, incidental private benefit is permissible if unavoidable in fulfilling the NPO's public mission.
- 3.12 The Basis for Conclusion (BC 1.17) explains the rationale for using the term 'incidental,' while BC 1.18 discusses the challenges of establishing a quantitative threshold to determine when a benefit is no longer incidental in the non-profit sector. Additionally, the Secretariat provided guidance on private distributions, indicating that such distributions are permissible as long as they remain incidental to the public benefit.

**Question 4:** Do TAG members agree with the rationale provided in BC 1.15 for using the term 'incidental' to describe private benefits, and the challenges discussed in BC 1.6 regarding establishing a quantitative threshold for incidental benefits?

#### **4. Level of private distributions consistent with the use of INPAG**

- 4.1 The ED1 Feedback on the use of surpluses and their impact on an entity's status as an NPO were discussed at the last TAG meeting. Respondents expressed concerns about the lack of clarity on how surpluses can be allocated to purposes other than direct public benefit without jeopardising an entity's NPO status. There was a call for clearer criteria to address potential tax implications and ensure consistent interpretation.
- 4.2 Additionally, feedback suggested the need for redrafting to clarify how surpluses should be handled by organisations operating at a breakeven point or those retaining surpluses for future financial capacity. Moreover, there were calls to exclude entities that distribute surpluses to their members from being categorised as NPOs. In response to this feedback, the Secretariat has proposed revisions to the guidance primarily to enhance clarity.
- 4.3 The Secretariat agrees that additional clarifications would be beneficial. It has expanded the guidance in G1.8 to clarify what is intended by surpluses within the broad characteristics of NPOs in INPAG, particularly regarding their use. Surpluses generated by NPOs are expected to be directed for public benefit, which can include

reinvesting in programs, expanding services, or strengthening the NPO's financial stability to enhance future public benefit. The guidance acknowledges that surpluses may arise from various activities, such as selling goods or services, receiving unrestricted donations, or earning returns from financial assets. Importantly, surpluses refer to entity-wide surpluses, not those tied to specific projects or grants. The guidance clarifies that surpluses must not be distributed for private benefit, except when such distribution is incidental and does not divert resources away from the NPO's primary mission of benefiting the public.

- 4.4 Feedback on ED1 included concerns that entities distributing surpluses to their members should not be considered NPOs. Some respondents advocated for the removal of this possibility from the guidance. However, the Secretariat acknowledges that in certain jurisdictions, NPOs may make distributions linked to the legal requirement for equity claims. The Secretariat has introduced clarifications that incidental distributions do not automatically prevent an entity from being considered an NPO under INPAG, provided these distributions are minimal and do not undermine the entity's public benefit purpose. The guidance in G1.9 and G1.10 specifies that while NPOs typically do not distribute economic benefits, service potential, or residual net assets upon dissolution, incidental distributions may be permitted if legally required, as long as they remain proportionally small and incidental to the NPO's net assets.
- 4.5 Comments from ED1 regarding private benefit distributions emphasised the need for INPAG to exclude profit-oriented entities. Accordingly, the guidance now states in the opening line of Section 1: 'INPAG is intended for use by entities that do not operate for profit.
- 4.6 Feedback from ED1 recommended that all distributions should be disclosed in the notes to the financial statements, demonstrating how they contribute to or support the NPO's public benefit objectives. The Secretariat will consider this proposal in updates to the sections relating to the financial statements.

**Question 5:** Do TAG members agree with the clarification in Section 1 that INPAG is intended exclusively for entities that do not operate for profit, thereby excluding profit-oriented entities from NPO status?

#### Membership organisations

- 4.7 The issue of private distributions and private benefit applies to membership organisations that make distributions to their members or provide benefits to their members as a result of the membership. Feedback on ED1 highlighted concerns over whether membership organisations can be deemed as providing a benefit to the public or if they provide a benefit their members. In particular, for closed membership organisations where all benefits are directed exclusively to members,

respondents questioned whether members could be considered a subset of the public and noted the lack of clarity on this point.

- 4.8 Additionally, there was concern about potential conflicts with IFRS, which classifies organisations that distribute dividends or economic benefits directly and proportionately to members (such as mutual cooperatives) as profit-oriented entities. The absence of the concept of "direct and proportionate" benefits in INPAG's criteria for NPO status raised the risk of inappropriate classifications, especially in cases like private sports clubs that provide services proportional to membership fees or organisations that are established purely to offer discounts on goods to members.
- 4.9 In response to this feedback, the guidance regarding membership organisations has been expanded to differentiate between those membership organisations that serve the greater good of society versus those that primarily benefit their members. G1.12 confirms that membership organisations can be considered as NPOs if they meet INPAG's broad characteristics.
- 4.10 G1.13 offers further guidance, emphasising that the key consideration is whether the organisation's primary objective is public benefit or member benefit, and whether any private benefits are incidental or proportionate to economic contributions. Membership organisations that serve the public while providing incidental private benefits can be considered NPOs under INPAG. However, organisations that distribute economic benefits directly and in proportion to members' contributions, such as private sports clubs or cooperatives, will not meet the NPO criteria. This clarification ensures consistency between INPAG and full IFRS standards.

**Question 6:** Do TAG members agree that membership organisations serving the public while providing incidental private benefits can qualify as NPOs under INPAG, and that those primarily benefiting their members (such as private sports clubs) may not meet the NPO criteria?

**Question 7:** Do TAG members find the revised guidance appropriate in ensuring consistency with IFRS standards by excluding membership organisations that distribute economic benefits directly and proportionately to members from qualifying as NPOs?

## 5. Use of INPAG by public sector entities

- 5.1 Feedback on ED1 generally supported the first two broad characteristics for defining NPOs. However, there were concerns about the third characteristic, which excluded government or public sector entities that prepare general purpose financial reports under public sector standards. Respondents argued that using public sector reporting obligations as a criterion for NPO status might not be appropriate. They noted that this criterion refers to reporting requirements beyond the scope of INPAG and suggested that INPAG could potentially be suitable for certain public sector entities, especially those operating at arms' length from governments.

- 5.2 The Secretariat's intention in including this characteristic was to prevent overlap with international public sector reporting standards, recognising that public sector entities would likely meet the first two NPO criteria. The Secretariat agrees that defining NPOs by referencing another reporting framework was not optimal.
- 5.3 To address concerns about overlap with public sector entities, the Secretariat proposes to remove the third characteristic and replace it with a statement in the scoping part of the Section. This amendment clarifies that "INPAG is not intended for use by Government and Public Sector Entities." This ensures that INPAG focuses specifically on entities that meet the broad characteristics of NPOs and avoids any unintended application to public sector entities. Section G 1.14 outlines the guidance for government or public sector entities that are not within the scope of INPAG.
- 5.4 Implementation Guidance in IG 1.12 and IG 1.13 provides clarification on whether an NPO can still be considered as such if it receives substantial government funding or is controlled by a public sector body. This provides flexibility for INPAG to be applied to specific public sector entities if this is determined to be appropriate by a jurisdictional regulator.

**Question 8:** Do TAG members agree with that the third characteristic, which excluded public sector entities based on their reporting obligations is replaced with a statement to scope out government and public sector entities?

**Question 9:** Do TAG members agree with the guidance provided in IG 1.12 and IG 1.13 on how substantial government funding or public sector control affects an entity's classification as an NPO under INPAG?

## 6. Use of indicators to support application of broad characteristics

- 6.1 Feedback on ED1 generally supported the usefulness of indicators for assessing whether an entity meets the broad characteristics of an NPO, especially concerning its primary objective of providing public benefit and directing surpluses for public benefit. Initially, guidance on these indicators was included in the Application Guidance. However, consistent with the decision to move application guidance to either the authoritative guidance or implementation guidance the Secretariat has now moved this information. The Secretariat is of the view that on balance this information is best located in the Implementation Guidance to better support the application of Section 1. The four indicators remain the same as in ED1:
- Absence of individuals with rights to financial returns from surpluses.
  - Requirement for residual net assets to be transferred upon dissolution to an entity with a similar public benefit purpose.
  - Receipt or provision of voluntary funding.
  - Holding and using assets for the benefit of the public.
- 6.2 Elements from the first two indicators have been incorporated into Section 1 to clarify the concept of private benefit. The Secretariat recognises that there is an argument that these indicators could be included in the authoritative guidance.



**Question 10:** Do TAG members agree with moving the guidance on indicators to the Implementation Guidance to support the application of Section 1?

## 7. Guidance through illustrative examples

- 7.1 Feedback on the illustrative examples provided in the Implementation Guidance in ED1 was generally positive, with many finding them useful for determining whether an entity can be considered an NPO. However, there were requests for additional examples or a decision tree to better illustrate how the broad characteristics approach can be applied. Given the varied circumstances of individual entities and jurisdictions, the existing examples from ED1 have been retained in the Implementation Guidance.
- 7.2 The guidance has been updated to align with changes in Section 1, and an additional example has been added to illustrate the application of the broad characteristics to a cooperative. This new example demonstrates how to use both the broad characteristics and additional indicators to make informed judgements when assessing whether an agricultural cooperative formed by small-scale farmers to support local economic development qualifies as an NPO.

**Question 11:** Do TAG members agree that the existing illustrative examples retained from ED1 are effective in helping determine whether an entity can be considered as an NPO?

**Question 12:** Do TAG members find the new example of the agricultural cooperative a useful addition for illustrating how to apply the broad characteristics and additional indicators in practice?

## 8. Revisions to the Basis for Conclusion

- 8.1 The Basis for Conclusion has been updated to reflect the amendments made in Section 1 in response to the feedback received from ED1 as outlined above. In addition to these updates, amendments have been made to improve ease of understanding, including removal of the passive voice.
- 8.2 As a consequence, there are a significant number of edits to the text. Given the volume of changes a clean version of the Basis for Conclusions for Section 1 is included in Appendix B.

**Question 13:** Do TAG members have any comments on the updated Basis for Conclusions?

## 9. Next steps

- 9.1 The draft text including the Basis for Conclusions will be updated to reflect TAG member feedback. If these amendments are not substantial in nature and do not raise issues that have previously considered by TAG members, the resulting updated version will be considered the draft final. Even if there are no substantial issues, TAG members will have another opportunity to comment on the drafts of Section when all sections of INPAG have been updated

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## Appendix A - Summary of changes to Section 1 Non-profit organisations

### Summary of changes to the Authoritative Guidance

G 1.1	Text amended to specify that INPAG is intended for use by 'entities that do not operate for profit' rather than simply stating it is intended for NPOs. Additional text to say that INPAG is not intended for government or public sector entities.
G 1.2	Text amended to reflect revisions to the broad characteristics of NPOs. The explicit exclusion of government entities, previously listed as a third required characteristic, has been removed from the list.
G 1.3	Simplification of language.
G 1.4	New content to clarify the term 'public' within the scope of 'benefit to the public' as it relates to the broad characteristics of NPOs for the purposes of INPAG.
G 1.5 – G 1.7	Simplification of language.
G 1.8	New content to provide specific guidance on surpluses in the context of the broad characteristics for the purposes of INPAG, ensuring consistent interpretation across various types of activities, and on the level of private distributions, in alignment with INPAG.
G 1.9 – G 1.10	New content on the circumstances where NPOs might have distributions to equity holders and to contrast with the approach in for profit entities.
G 1.11	Removal of text relating to the recommended reporting requirements for other sectors.
G 1.12 – G 1.13	New content to clarify that membership organisations can qualify as NPOs if they provide public or societal benefits, rather than focusing solely on financial returns to their members.
G 1.14	Simplification of language
G 1.15 – G 1.17	No modifications
G 1.18	Simplification of language
G 1.19 – G 1.21	No modifications

### Summary of changes to the Implementation Guidance

IG 1.1	Simplification of language
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IG 1.2	Passive to active voice
IG 1.3	Simplification of language
IG 1.4-IG 1.6	Content reorganised to provide further clarity on the broad characteristics
IG 1.7-IG 1.11	Content on indicators moved from Application Guidance
IG 1.12-IG 1.13	New content to provide further guidance on whether an NPO still be considered an NPO if it receives substantial government funding or is controlled by a public sector body
IG 1.14	Text amended to focus on the exclusion of public sector-specific transactions and events, such as taxation, from the scope of INPAG.
Illustrative Examples	Text amended to align with changes in the Authoritative Guidance and Implementation Guidance.
Example 5	New example added relating to co-operatives.

### Summary of changes to the Basis for Conclusions

BC 1.1 – BC 1.3	Simplification of language
BC 1.4	Content not modified
BC 1.5 – BC 1.7	Content has been relocated to the appropriate heading. The text has been updated to align with amendments in Section 1 and the Implementation Guidance and streamlined for conciseness.
BC 1.7 – BC 1.9	Content updated to reflect feedback received from ED1.
BC 1.10 – BC 1.11	New content to reflect the revised broad characteristics.
BC 1.12 – BC 1.16	New content to incorporate modifications in response to feedback received from ED1.
BC 1.17	New content to explain the rationale for referencing 'incidental' private benefits in INPAG.
BC 1.18	New content to highlight the challenges associated with using a threshold to determine the limit for incidental private benefits.
BC 1.19 – BC 1.22	Content modified to incorporate amendments in Authoritative Guidance in response to feedback received from ED1 which sought further clarity on surpluses within the broad characteristics of NPO for INPAG purposes.
BC 1.23 – BC 1.25	New content to incorporate modifications in response to feedback received from ED1. The modifications clarify



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	the distinction between public benefit and member benefit in membership organisations and align the guidance with IFRS standards regarding the distribution of economic benefits to members.
BC 1.26 – BC 1.28	Content not modified.
BC 1.29	New content to provide further clarity on usefulness of INPAG for entities that have public accountability.

## Appendix B – Basis for Conclusions

### Section 1 – Non-profit organisations

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#### Intended scope of the INPAG

- BC 1.1 INPAG application can be beneficial for all non-profit organisations no matter their size or jurisdiction. For smaller organisations with simple stakeholder needs and no fiduciary obligation, INPAG and its accrual requirement may exceed their accountability requirements. However, INPAG provides useful guidance that these NPOs may draw on and potentially adopt over time. Larger, more complex organisations that meet the public accountability definition under IFRS are required to follow full IFRS Accounting Standards, or equivalent national Generally Accepted Accounting Practice (GAAP). Nonetheless, INPAG may provide useful guidance for NPO specific transactions.
- BC 1.2 It is important to recognise that the decision about which entities apply INPAG rests with legislative and regulatory authorities and standard setters in individual jurisdictions.

#### Responses to the Consultation Paper

- BC 1.3 Section 1 Non-profit organisations uses a broad characteristics approach to identify the entities who will benefit from applying INPAG. This approach focuses on how to best meet the needs of users of general purpose financial reports for these entities.
- BC 1.4 Respondents to the IFR4NPO Consultation Paper were overwhelmingly supportive of this approach. It was recognised that a narrower focus on entities with, for example, a specific legal status as an NPO could exclude many entities that could benefit from INPAG and that not all jurisdictions have a relevant legal framework that would permit a narrow legal status approach. In addition, entities that are deemed to be NPOs in one jurisdiction's legislative framework may not be deemed to be an NPO in another jurisdiction, despite them being structured in the same way and carrying out the same activities.
- BC 1.5 Some of the broad characteristics included in the IFR4NPO Consultation could more appropriately be seen as indicators of other characteristics or consequential to activities driven by them. "Indicators" were therefore developed to help entities to determine whether they fall within the intended scope of INPAG. These are intended to help in decision making where it is not clear if an entity fully meets the broad characteristics of an NPO.
- BC 1.6 Two of these, namely 'voluntary funding' and 'holding and using assets for the benefit of the public' were included as broad characteristics in the IFR4NPO Consultation Paper. In response to feedback these were removed as broad characteristics but added as indicators. 'Voluntary funding' was expanded to cover grant-giving bodies that provide funding to other NPOs. 'Holding and using assets for the benefit of the public' was also expanded to provide clarity that it covers entities that have a responsibility for the

preservation and enhancement of assets such as artistic works, heritage assets, and natural assets.

- BC 1.7 Two additional indicators were introduced. These are 'an absence of individuals with rights to financial returns from surpluses' and 'a requirement that the NPO transfer residual net upon dissolution to an entity with a similar purpose'. These indicators were included as the consultation responses identified them as being useful in a number of jurisdictional-level frameworks that provide guidance on determining whether an entity exists to provide a benefit to the public. These additional indicators focus on the nature of defined rights to and financial benefits during an entity's existence and upon its dissolution. The details of these indicators are provided in the Implementation Guidance, with illustrative examples used to demonstrate how they can support entities in determining whether they meet the broad characteristics requirements of an NPO.
- BC 1.8 Responses to the IFR4NPO Consultation Paper noted that it was unclear whether government entities were expected to be within scope of INPAG. In some jurisdictions, financial reporting guidance for NPOs is included as part of a broader framework of standards for all 'public benefit entities' which includes government and public sector entities as well as non-profit organisations. Where this is the case, however, there is usually a clear distinction made between those standards that are applicable to entities that are controlled by government and other public benefit entities which are not.

### **Broad characteristics**

- BC 1.9 In Exposure Draft 1 (ED1), the broad characteristics of NPOs were revised to reflect the feedback from the IFR4NPO Consultation Paper. This revision included the removal of 'and/or' statements, with an entity being required to display all of the broad characteristics to be classified as an NPO for the purposes of INPAG. ED1 proposed that an entity is an NPO if:
- its primary objective is to provide a benefit to the public,
  - it directs any surpluses for public benefit, and
  - it is not a government or public sector entity that should prepare general purpose financial reports under public sector financial reporting standards.
- BC 1.10 In response to the feedback received on the IFR4NPO Consultation Paper, the characteristic of having a 'primary objective of providing a benefit to the public' was refined in ED1 to explicitly acknowledge that an entity may provide both goods and services for public benefit.
- BC 1.11 Respondents to ED1 generally agreed with the focus of the first two characteristics. However, there was concern about defining NPOs based on their public sector reporting obligations. Views were also expressed that INPAG may be suitable for some public sector entities, particularly those that operate at arms' length from government. The intention in including this criterion was to avoid an unintentional overlap with international public sector reporting requirements, as public sector entities would likely meet the first two criteria. The Secretariat, however, agrees that describing the characteristics based on another reporting framework is not optimal. As a consequence, the third criterion in ED1 has been removed. Instead the intention to not

overlap with public sector entities is set out in the scope, with public sector entities described in G1.14.

BC 1.12 Therefore, for the purposes of INPAG, entities that publish general purpose financial reports for primary users will be NPOs if they exhibit both of the following broad characteristics:

- their primary objective is to provide a benefit to the public; and
- their surpluses are directed for the benefit of the public.

### **Primary objective of providing a benefit to the public**

BC 1.13 Having a primary objective of providing a benefit to the public is one of the broad characteristics of an NPO, and in many cases this will be specified in the founding documents of the entity.

BC 1.14 Feedback on ED1 regarding the use of the term 'public' in the broad characteristics was varied. Several respondents expressed concerns about the ambiguity of the term and proposed alternative wording. The Secretariat has clarified the meaning of 'public' in the context of this guidance. The authoritative guidance now defines the 'public' as the individuals or groups who directly or indirectly benefit from the NPO's services and activities in pursuit of its primary objective.

BC 1.15 ED1 feedback raised concerns about whether "providing a benefit to the public" sufficiently includes smaller, specific target groups in addition to the wider public. Section 1 clarifies that the scope of benefit to the public may be broad, involving the provision of services and/or goods to members of the general public, members of particular communities, or for wider societal benefit. It follows that the focus of an NPO may be narrow, targeting a specific group or defined group. The Implementation Guidance further elaborates that the sufficiency of this benefit should be evaluated in relation to the NPO's specific purpose. Even if the NPO's focus is on a smaller, specialised group, the public impact must be meaningful and aligned with its overarching goals.

BC 1.16 The primary objective of for-profit entities is to generate a financial surplus in order to provide a financial return to equity holders or others for private benefit. It is these equity holders, or other providers of resources to the entity such as holders of debt or suppliers, who will be the primary beneficiaries of the activities of the entity. This contrasts with NPOs whose primary objective is not to generate financial or other economic returns, though some incidental private benefits may be provided in the pursuit of its purpose.

BC 1.17 The rationale for referencing 'incidental' private benefits in INPAG is to acknowledge that, while an NPO may provide some private benefits, these benefits must remain secondary to the NPO's primary objective of providing a benefit to the public. This requirement ensures that private benefits do not divert resources away from and NPO's purposes and undermine its ability to deliver its core mission of providing public benefit.



BC 1.18 INPAG does not set a specific quantitative threshold for what constitutes 'incidental' private benefit because the impact of private benefits can vary significantly depending on the context and nature of the NPO. A rigid, numerical threshold may not account for the diverse ways in which NPOs operate across different sectors, jurisdictions, and community needs. Instead, a qualitative assessment allows for more nuanced judgement, ensuring that private benefits do not overshadow the primary objective of providing a public benefit, while allowing flexibility in interpretation based on an NPO's unique circumstances.

### **Direct surpluses for public benefit**

BC 1.19 NPOs will need to be financially viable to meet their objectives. This may include undertaking activities which generate a profit or financial surplus such as selling goods and services or holding and trading financial assets. These should be used to support the primary objective of providing a benefit to the public. Generating profits or a financial surplus should not be the primary objective of the NPO.

BC 1.20 This contrasts with for-profit entities, where generating profits is a primary objective and financial returns are generally distributed to providers of economic resources such as contributors of equity.

BC 1.21 Feedback on ED1 called for clearer guidance on how surpluses can be used. Respondents sought clarity on NPOs operating at breakeven or retaining surpluses to build capacity, and on profit-making activities carried out to support mission-driven purposes. They also sought clarity on the use of surpluses on individual grants, projects or programmes. To address this, Section 1 clarifies that surpluses may be directed towards reinvestment in programs, service expansion, or ensuring financial sustainability or resilience to enhance future public benefits and that surpluses should be evaluated at the entity-wide level.

BC 1.22 Some feedback from ED1 suggested that distributing surpluses to holders of equity claims should mean that an entity cannot be an NPO. However, INPAG recognises that in certain jurisdictions, entities primarily focused on providing public benefit may still be legally able to make distributions. In these cases, such distributions do not automatically mean that an entity is not an NPO under INPAG, provided they remain incidental to the NPO's primary objective of providing a benefit to the public. Entities that distribute a material amount of any surplus for private benefit are not expected to be NPOs.

### **Membership organisations**

BC 1.23 Feedback from ED1 included concerns about applying INPAG to membership organisations, particularly those with closed membership, where all benefits are directed exclusively to members. Respondents questioned whether members could be considered a subset of the "public" and noted a lack of clarity. Additionally, there was concern about potential conflict with the Preface to IFRS Standards, which describes organisations distributing dividends or economic benefits directly and proportionately to owners, members or participants (such as mutual cooperatives) as profit-oriented

entities. Respondents noted that the absence of the concept of "direct and proportionate" benefits in INPAG's criteria for NPO status could lead to inappropriate conclusions in certain cases. Examples include private sports clubs that provide services proportional to membership fees or membership organisations established to access discounts on goods to members.

BC 1.24 In response to this feedback, Section 1 has been revised to distinguish between membership organisations acting for the greater good of society and those established to primarily benefit their members. The key factor is whether the organisation's primary objective is public benefit or member benefit, and whether any private benefits are incidental or directly proportionate to economic contributions. Membership organisations operating for the benefit of society, where private benefits are incidental, could be NPOs under INPAG.

BC 1.25 Further clarification has been added to ensure that organisations where economic benefits are distributed directly and proportionately to members (such as private sports clubs or cooperatives offering member discounts) may not meet the criteria for being an NPO. This distinction provides consistency between INPAG and full IFRS standards.

### **Public accountability and societal accountability**

BC 1.26 The IFR4NPO Consultation Paper proposed that NPOs have a wider societal accountability. This is an expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.

BC 1.27 While all NPOs can be said to have societal accountability, some may also meet the IFRS definition of public accountability. The *IFRS for SMEs Accounting Standard* notes that an entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (for example most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks often meet this second criterion).

BC 1.28 INPAG uses the *IFRS for SMEs Accounting Standard* as its foundational framework. As a standard that is specifically designed for entities that do not have public accountability:

- there are topics that may be relevant to entities that have public accountability that have been omitted;
- accounting policy options that may be useful to entities that have public accountability are unavailable; and
- there are simplified recognition and measurement principles and reduced disclosures that may not be appropriate for entities with public accountability to meet the needs of users.

BC1.29 INPAG is being developed to provide accounting guidance specifically for NPOs. Those NPOs that have public accountability may find the guidance in INPAG useful for transactions unique to NPOs. Such organisations are not prohibited from using INPAG. However, NPOs that have public accountability are expected to use IFRS Accounting Standards or follow an appropriate jurisdictional GAAP. In the event that an NPO with public accountability chooses or is required to use INPAG, an explanation is required of how INPAG meets the needs of users of its financial statements.