



Financial Reporting Council

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11 September 2024

**International Non-Profit Accounting Guidance Exposure Draft 3 ('INPAG ED3' or 'Guidance'): Invitation to comment**

Dear Karen,

I am writing on behalf of the UK's Financial Reporting Council (FRC) in response to the above consultation.

We welcome the opportunity to contribute to your Guidance development process, both through our responses to consultations and our participation in the project's Technical Advisory Group. We are grateful to the project team for taking this project forward, and note that INPAG has the potential to contribute towards addressing the gaps that exist in international financial reporting frameworks in relation to non-profit organisations (NPOs). However, we do have significant concerns about the scale and complexity of the project which we believe poses a risk to achieving the main objective of supporting high-quality financial reporting.

Please note that we have not responded to every question in the invitation to comment. However, we have chosen to focus on what we consider the more pertinent matters, and where we consider our input to be most valuable to the INPAG project. Our detailed comments in response to INPAG ED3 are included in the Appendix to this letter. However, we would like to highlight some key themes here.

**1. Overall quality and consistency of drafting and scale of INPAG project**

During our review of ED3 and the previous EDs, we have noted a lack of consistency in various places in the proposed drafting. For instance, we noted inconsistencies between related paragraphs, between the Guidance and the Application Guidance, and between the Guidance and the Basis for Conclusions. We have also noted instances when the rationale is included in the Guidance, rather than the Basis for Conclusions. We recommend that INPAG reconsiders the way the rationale for its Guidance is expressed, and specifically reconsiders the balance between the Guidance itself and the Basis for Conclusions.

As previously mentioned in response to ED1, we suggest that INPAG should consider not having the guidance spread between Guidance and Application Guidance. Whilst we appreciate the challenges in drafting such documents, inconsistencies lead to a risk that stakeholders will struggle to understand the final Guidance and engage with it in a manner that will result in good quality reporting.

Whilst we fully commend the spirit of the INPAG project, we continue to have concerns with its scale in terms of the layers of complexity, optionality, and sheer volume of content. The amount of content that stakeholders will need to engage with, means there is a substantial risk that the overall project objective of producing high-quality financial reporting will not be achieved.

## **2. Smaller NPOs and scope of INPAG**

Based on the various INPAG outreach activities, we understand that INPAG is not intended to be suitable for smaller NPOs to apply.

If INPAG is not intended to be suitable for smaller NPOs, then we suggest it may be worth considering clearly defining a smaller NPO in the final Guidance. It is fundamental that standard-setters make it clear to which entities a set of standards is intended to apply, so that there is clarity:

- when developing and finalising standards or guidance and considering what level of disclosure may be appropriate;
- for jurisdictions in future decision-making about whether to adopt INPAG; and
- for preparers if considering voluntary adoption of INPAG.

It will also be particularly important for individual jurisdictions to be able to understand how the scope of INPAG relates to any jurisdictional requirements to prepare accruals accounts, as drafted, the guidance implies that smaller entities are those for which cash accounting is sufficient to meet users' information needs.

## **3. Section 37 Supplementary Information**

Whilst the focus of our response is on the general-purpose financial statements (GPFS), we consider that including supplementary information as an appendix to the GPFS may cause clutter for users of the financial statements. This is likely to cause confusion for users when some of the supplementary information is not subject to audit. As such we strongly recommend that either Section 37 *Supplementary information* and its related Practice Guide are published separately from INPAG, or that Section 37 is relocated to sit outside the main framework.

## **4. INPAG Implementation Guidance Annex A: Illustrative financial statements**

Whilst there is merit in illustrative financial statements being available to aid preparers who may

struggle with the requirements without any examples, there is an increased risk of boilerplate reporting which results in poorer quality financial reporting. We are not convinced that illustrative financial statements should be issued by standard setters, as this may have unintended consequences in terms of how preparers may interpret such supporting material, considering it a requirement, as opposed to following the accounting standards for their specific facts and circumstances. There are also challenges in providing illustrative financial statements to cover an international audience given that, in practice, entities may need to integrate the requirements of INPAG with jurisdictional requirements.

## 5. Areas of technical disagreement

Our response draws on the FRC's experience in developing accounting standards applicable in the UK and Republic of Ireland. This includes FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which addresses issues specific to entities that may be categorised as NPOs. The requirements in FRS 102 were originally based on the *IFRS for SMEs Accounting Standard*, modified both in terms of the scope of entities eligible to apply it and the accounting treatments provided.<sup>1</sup> The scope of FRS 102 includes Public Benefit Entities (PBEs) and therefore includes the most significant and relevant PBE-specific issues. As set out in the Appendix, we have some significant reservations about certain aspects of the proposals in relation to fund accounting, designated funds, classification and presentation of expenditure and accounting for support costs. Specifically:

### **INPAG Section 36 Fund accounting**

Overall, we support the proposal in ED3 not to require the separate presentation of funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses (SOIE). However, we have some reservations on some of the proposals in Section 36 as we consider the current proposal to contradict the underlying principles of fund accounting. These have been noted below.

- **Internally designated funds:** We agree with the INPAG proposals that internally designated funds should not be reported as funds with restrictions. However, the proposed drafting is ambiguous and inconsistent on whether INPAG considers that an internally designated fund should be disclosed separately from general funds. We note that internally designated funds may exist in an NPO, but these reflect no more than management intention. Such funds do not create a separate class of residual interest/net assets in the entity. In our view, any disclosure of internally-designated funds would be better located in the narrative reporting where it can be linked to the NPO's strategy and how that will be delivered. We suggest that the wording is reviewed to ensure it is

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<sup>1</sup> For details, refer to *Significant differences between FRS 102 and the IFRS for SMEs Standard* available at: <https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/significant-differences-between-frs-102-and-the-ifrs>

consistent and in accordance with the principles of fund accounting.

- **Tracking income, expenses, assets and liabilities for each fund:** We agree that, when a separate fund exists, it is necessary to track the income, expenses, assets and liabilities relating to that fund, otherwise it would not be possible to keep an accurate record of the fund's balance. However, the need to maintain records should not need to be specified in INPAG. This concept applies to all transactions, events or conditions that are reflected in the financial statements. However, if the existence of separate records is intended to be an indicator of whether a fund exists, the current INPAG drafting does not achieve this. Ultimately, the question of whether an NPO needs to track its transactions and maintain records is separate from the question of what it needs to present and disclose in its financial statements (which is usually at a more aggregated level). ED3 is not clear on how an NPO shall identify a separate fund for financial reporting purposes, as opposed to management control and reporting purposes. We suggest Section 36 is reviewed so that there is no ambiguity on this matter.
- **Support costs and fund accounting:** We do not agree with the proposed approach which requires that support costs should be charged to a fund, even if inclusion of such costs is not permitted under the terms of any arrangement. Such an approach would be contrary to the definition of a fund with restrictions because it would imply that the funds are being depleted by support costs for which those funds are not allowed to be used. However, we acknowledge that for management reporting purposes, an NPO may wish to monitor the full cost of delivering the relevant activity and therefore may include all support costs. We suggest that the proposals are revisited so that the requirements cover only what is required for financial reporting purposes and should reinforce that reporting by activity (by function) should include support costs.

### **INPAG Section 24 Part II Classification of expenditure**

We do not agree that there should be a rebuttable presumption in respect of classification of expenditure for disclosure purposes, nor that 'by nature' can be presumed to be the best form of presentation and disclosure of expenditure for an NPO.

We understand that the development of INPAG takes into account relevant IASB projects. At the time of publication of ED3 in May 2024, the IASB had recently issued IFRS 18 *Presentation and Disclosure in Financial Statements*, which we consider is relevant as it represents the latest developments by the IASB. It is not clear to what degree INPAG ED3 has taken into account the requirements of IFRS 18 in its final form. We think INPAG should take this into account when finalising its Guidance; at present INPAG appears to be diverging from the latest developments in this area.

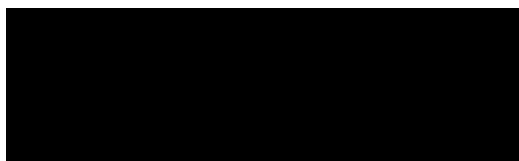
The views expressed in our response to INPAG ED3 are separate from, and will not necessarily



affect, the FRC's future development and maintenance of UK and Ireland financial reporting standards.

If you have any queries or would like to discuss our comments in more detail, please contact Stephen Maloney or Omadevi Jani at [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk).

Yours sincerely



**Mark Babington**

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**INTERNATIONAL FINANCIAL REPORTING**  
FOR NON PROFIT ORGANISATIONS

## **International Non-profit Accounting Guidance (INPAG) Exposure Draft 3**

### **Response template**

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 3](#)

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 11 question areas, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish. You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **16 September 2024 and must be in English.**

Responses can be submitted to [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org) or through the website at [www.ifr4npo.org/have-your-say](http://www.ifr4npo.org/have-your-say)

**Respondent information:**

<b>First name:</b>	Mark	<b>Country:</b> (this should be the country in which you are based)	United Kingdom
<b>Last name:</b>	Babington	<b>Professional interest:</b> please choose from: <ul style="list-style-type: none"> <li>• NPO, ie preparer of financial statements,</li> <li>• auditor,</li> <li>• accounting standard setter,</li> <li>• professional accounting organisation,</li> <li>• regulator of NPOs,</li> <li>• donor,</li> <li>• academic,</li> <li>• civil society,</li> <li>• user of NPO services,</li> <li>• other (please state)</li> </ul>	Accounting standard setter
<b>Email:</b>	[REDACTED]		
<b>Position:</b>	Executive Director, Regulatory Standards		
<b>Organisation:</b> (who do you work for)	Financial Reporting Council		
<b>Response submitted:</b>	<ul style="list-style-type: none"> <li>• on behalf of my organisation</li> </ul>		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Disagree

This document has been designed purely to enable feedback to Exposure Draft 3. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at [ifr4npo@cipfa.org](mailto:ifr4npo@cipfa.org).

## Specific Matters for Comment

### Question 1: Fund accounting

INPAG Section 36 sets out the characteristics of a fund for the purposes of INPAG and whether a fund is presented in the financial statements as being with or without restrictions. A fund is presented as with restrictions where the use of resources is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements or where a fund is established for a fundraising campaign with an externally communicated commitment on the specific use for the funds. The guidance requires that the income, expenses, assets and liabilities associated with a fund are recorded. New disclosures are required for fund balances and movements in the year. INPAG Section 5 has been amended to remove the requirement to disclose funds with and without restrictions on the face of the Statement of Income and Expenses.

1 Fund accounting	References	Response
<p><b>General feedback – Basis for response</b></p>	<p>n/a</p>	<p>In addition to responding to the specific matters for comment, we set out here what we consider some of the key features of fund accounting. At present, it is not clear to us that the proposals in INPAG ED3 are fully aligned with these features.</p> <ul style="list-style-type: none"> <li>• A fund is created when resources are held on trust. A fund may be restricted when it is held for a specified or particular purpose, or a fund may be unrestricted and available to apply to, or spend on, any of the purposes of the entity. The legal position of a fund may vary by jurisdiction.</li> <li>• Each fund is a defined set of resources that is held and maintained separately by the entity from other sets of resources, because of the circumstances in which the resources were originally received, or the restrictions on that fund. This will require separate records to be maintained.</li> <li>• When a restricted fund exists, only expenditure that meets the terms of the restriction can be met from the fund.</li> <li>• Internally designated funds may exist, but these reflect no more than management intention. Such funds do not create a separate class of residual interest/net assets in the entity and should not lead to the recognition of a transaction in the financial statements for financial reporting purposes. They may, however, be discussed in the narrative reporting.</li> <li>• Management may wish to keep separate records of income and expenditure (both direct and indirect costs, including support costs) for various activities/projects that the NPO carries out to further its purposes. However, such records do not equate to the recognition of transactions under fund</li> </ul>



1 Fund accounting	References	Response
		<p>accounting, for financial reporting purposes. They may, however, be relevant for reporting expenditure by function.</p> <p>Under the proposals in INPAG ED3 there appears to be a lack of distinction between what reporting is required to demonstrate accountability for restricted funds and what may be required for activity reporting (by function) for expenditure. The two are separate and distinct elements of financial reporting: fund accounting is primarily concerned with the accountability for the fund and its restrictions which have been imposed by the donor or funder, whereas activity reporting encompasses the full costs related to a specific missional activity carried out by the NPO.</p>
<p>a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?</p>	<p>G5.3, AG5.4</p>	<p>As mentioned in our response to ED1, whilst fund accounting is not addressed in FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>, the presentation of funds has been reflected for many years in the Charities Statement of Recommended Practice (SORP).</p> <p>We support the proposal in ED3 not to require transactions affecting funds with and without restrictions to be presented separately on the face of the Statement of Income and Expenses (SOIE). Further, the current proposal will result in a more streamlined Statement of Income and Expenses, which may be more engaging for users.</p> <p>Paragraph 5.9 of the <i>IFRS for SMEs Accounting Standard</i> states that an entity shall present additional line items, headings and subtotals in the statement of comprehensive income (and in the income statement, if presented), when such presentation is relevant to an understanding of the entity's financial performance.</p> <p>Paragraph G5.9 of INPAG ED1 contained similar requirements. Therefore, we would expect that information about funds with restrictions, including movements in these type of funds, would be presented on the face of the SOIE when particularly significant. The other primary statements, such as the Statement of Financial Position and Statement of Changes in Net Assets, provide a distinction between funds with</p>

1 Fund accounting	References	Response
		<p>restrictions and funds without restrictions at an aggregate level, with more detailed disclosure in the notes to the financial statements, e.g. the movement in funds note. This supports our view that it is not necessary to require a full analysis as a matter of course.</p> <p>We note that some stakeholders may prefer the proposal in ED1, to require separate presentation, and this is not precluded by the current proposals in ED3.</p>
<p>b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?</p>	<p>G36.3–G36.4, Figure AG36.1</p>	<p>As explained in the invitation to comment, ‘fund accounting tracks the receipt and use of resources, according to their intended use’. Proposed paragraphs G36.3 to G36.8, and the first part of the decision tree in Figure AG36.1, deal with the identification of funds, which appears to depend on how the NPO tracks resources.</p> <p><b>Identifying funds</b></p> <p>Proposed paragraph G36.3 sets out four common reasons for a fund other than the general fund to exist: (a) an operating choice by an NPO; (b) a jurisdictional legal requirement; (c) a legal or equivalent requirement arising from arrangements with grantors or donors; or (d) a reasonable expectation that resources will be used for a specific purpose.</p> <p>Proposed paragraph G36.4 goes on to state that (notwithstanding the ‘common reasons’ set out in G36.3), a separate fund will only exist for the purposes of INPAG in two cases: (a) a legal or equivalent requirement to track the use of resources: this appears to encompass G36.3(b) and (c); or (b) reasonable expectations that resources used for a specific set of activities will be tracked: this has some similarities with G36.3(d), but is not synonymous as the latter refers to the use of resources, rather than the tracking of that use. We note also that a reasonable expectation that resources obtained from a specific source (e.g. a specific donor) will be tracked, would not result in the identification of a separate fund, unless those resources were used for a specific set of activities.</p> <p>We note that the part of Figure AG36.1 that corresponds with paragraph G36.4(a) omits the words ‘or equivalent’, which may cause confusion.</p>

		<p><u><i>Internally designated funds</i></u></p> <p>We agree that internally designated funds (see proposed paragraphs G36.3(a), G36.15 and G36.16) should not be reported as funds with restrictions.</p> <p>As currently drafted, there is a significant amount of ambiguity in INPAG as to whether an internally designated fund is considered to be a separate fund at all, and what the disclosure and presentation requirements are in respect of internally designated funds. The various inconsistencies and areas of ambiguity include:</p> <ul style="list-style-type: none"> <li>• Proposed paragraph G36.4 states the situations in which a separate fund will exist for the purposes of INPAG; these situations do not include internal designation. However, in contrast, proposed paragraph AG36.4 suggests that it is possible for there to be a separate fund in respect of a designated fund, even though it is not a fund with restrictions.</li> <li>• Proposed paragraph G36.16(a) states that 'funds without restrictions shall include any fund that has been created by internal designation by an NPO's governance body', which again suggests that it is possible for an internally designated fund to be a separate fund, despite proposed paragraph G36.4. Proposed paragraph AG36.16 does not resolve this ambiguity: it states that internal designation 'shall not create a fund with restrictions,' but is not explicit as to whether or not it can create a fund without restrictions.</li> <li>• Proposed paragraph G36.15 requires designated funds to be reported as funds without restrictions and presented in the notes to the financial statements. This implies that a separate fund does exist in relation to a designated fund.</li> <li>• Moreover, proposed paragraph G36.22(e) refers to a requirement to disclose 'details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation'. Given the parenthesised text, it is unclear whether there is a requirement to disclose internally designated funds, and why this would be the case. Further, based on Figure AG36.1 one may interpret that INPAG requires such internally designated funds to be presented as part of funds without restrictions, as opposed to provide separate disclosure of internally generated funds.</li> <li>• The 'proposal development' box on page 8 of the invitation to comment states that 'internally designated funds have been included within the scope of the</li> </ul>
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1 Fund accounting	References	Response
		<p>disclosure requirements for fund accounting,' but does not comment on the apparent contradiction with such funds needing to be disclosed even though, for the purposes of INPAG, proposed paragraph G36.4 suggests that they are not identified as funds.</p> <p>We recommend that INPAG reconsiders the way accounting for separate funds is expressed in the Guidance, using terminology consistently, and specifically reconsidering the balance between the Guidance itself and the Basis for Conclusions. In our view it would be clearer if the Guidance focused on the INPAG definition of a fund. An acknowledgement that NPOs might in practice (e.g. for management accounting purposes) regard as a fund, items that do not meet the INPAG criteria, could be included in the Basis for Conclusions.</p> <p>In our view, designation, reflecting no more than management intention, does not create a separate class of residual interest/net assets and should not lead to the recognition of a transaction in the financial statements. Under the principles of fund accounting, we expect that there are generally two types of funds: those with restrictions and those without restrictions (internally designated funds being part of the latter).</p> <p>We understand that there is established practice for NPOs to designate or ring-fence funds, and accept that some users of financial statements may find information on such designation useful and relevant to decision-making. However, such designations are an internal matter for each NPO and therefore should not be disclosed in the primary statements.</p> <p>We understand that some NPOs may wish to present additional information on designation in the notes to the financial statements. However, caution needs to be exercised when providing disclosure of an internally designated fund in the notes to the financial statements. Management has discretion to change their intentions and that fact needs to be clear in the disclosure. In addition, information about internal designation should not obscure relevant information.</p>

1 Fund accounting	References	Response
		<p>Ideally, we believe that any disclosure of internally designated funds would be better located in the narrative reporting where it can be linked to the NPO's strategy and how that strategy will be delivered.</p> <p><b>The ability to identify material funds</b>  Question 1(b) asks about whether the guidance will ensure that material funds can be identified. Further to our previous remarks about the logic of when funds will exist for the purposes of INPAG, we have no further comment to offer on the practicalities of how possible it will be for an NPO to identify its funds. However, we note that when an NPO has received funds with restrictions, in order to meet the requirements of those restrictions we would expect an NPO to maintain appropriate records, from which it could identify any material funds that would require disclosure in the financial statements.</p>
<p>c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and why? What are the practical considerations?</p>	<p>G36.5, G36.7, AG36.3</p>	<p><b>Tracking income, expenses, assets and liabilities for each fund</b>  Proposed paragraph G36.5 states that separate accounting records shall be kept for 'sets of activities identified in paragraph G36.4', comprising each fund's income, expenses, assets and liabilities. We agree that, when a separate fund exists, it is necessary to track the income, expenses, assets and liabilities relating to that fund: it would not otherwise be possible to keep an accurate record of the fund's balance. However, the need to maintain records should not need to be specified in individual sections of INPAG; it applies to all transactions, events or conditions that are reflected in the financial statements. If, on the other hand, the existence of the separate records is intended to be an indicator of whether a fund exists, the current drafting does not achieve this.</p> <p>In addition, we are unsure why paragraph G36.5 refers to 'sets of activities' rather than 'funds'.</p> <p>Proposed paragraph AG36.2 states (emphasis added) that 'an NPO <u>will be able to</u> demonstrate its tracking of the use of resources in a fund through regular management reporting'. It is unclear to us what exactly this is referring to in the context of the financial statements: for example, might those funds presented</p>

1 Fund accounting	References	Response
		<p>separately in the financial statements be those that are reviewed separately by the Chief Operating Decision Maker?</p> <p>We note that the question of whether an NPO needs to track these transactions is separate from the question of what it needs to report and disclose in its financial statements. ED3 is not clear how an NPO shall identify on initial recognition a separate class of fund for financial reporting purposes, as opposed to management reporting purposes. We suggest the wording is reviewed to ensure this is clear.</p> <p>In our view this section, and the accompanying guidance, should separate more clearly the financial reporting requirements from other legal requirements and the internal processes that might be necessary to meet those requirements.</p> <p>We also note that:</p> <ul style="list-style-type: none"> <li>proposed paragraph G36.12 states that ‘a restricted fund shall show all of the transactions related to its specific purpose’. We do not think that this applies only to a restricted fund (for example it would also apply to a revaluation reserve), and so it might be preferable to delete the word ‘restricted’ to avoid confusion. In addition, we think the word ‘show’ may be confusing. We understand this to refer to the NPO’s internal accounting records, not to the information presented in its financial statements.</li> <li>proposed paragraph G36.17 states that reserves such as a revaluation reserve ‘shall be treated as unrestricted unless any reserve movement relates to a fund with restrictions’. It is unclear to us that this differs from the general requirement to track the transactions relating to each fund, and we therefore wonder whether it is necessary to say this. It may also be confusing to state a presumption that movements in a revaluation reserve are unrestricted, when this is not necessarily true. For example, if all of an NPO’s property, plant and equipment related to its restricted funds, none of the movements in its revaluation reserve would be unrestricted.</li> </ul>

1 Fund accounting	References	Response
		<p>We note in passing that:</p> <ul style="list-style-type: none"> <li>the word 'out' has been omitted from proposed paragraph G36.8 ('an assessment shall be carried at each reporting date').</li> <li>in paragraph G36.16(a), the term 'governance body' is used, rather than 'governing body' elsewhere (including in paragraph G36.15).</li> <li>the word 'is' appears to be incorrect in proposed paragraph AG36.3 ('any remaining cash or other assets must be identified as it is possible they will need to be returned to the grantor or <u>is</u> available for other purposes' – emphasis added).</li> </ul> <p>We are not in a position to comment in detail on the costs and benefits, or the practical considerations.</p>
<p>d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?</p>	<p>G36.9</p>	<p>Whilst the identification of funds appears to depend on the <i>tracking</i> of the use of resources, determining whether those identified funds are funds with restrictions appears to depend on restrictions over the use of those resources. We also note that proposed paragraph G36.5 refers to records of the income, expenses, assets and liabilities of a fund, which may not be the same as tracking the use of resources, and may lead to a lack of clarity over whether certain funds are funds with restrictions.</p> <p>Proposed paragraph G36.9 sets out two criteria, either of which result in a fund being presented as a fund with restrictions. G36.9(a) is superficially similar to G36.3(b) and (c) and G36.4(a). G36.9(b) is superficially similar to G36.3(d) and G36.4(b); indeed, given the inconsistency noted above it is arguably <i>more</i> similar to G36.3(d) than G36.4(b) is. However, despite these superficial similarities it is our understanding, supported by Figure AG36.1, that determining whether an identified fund is a fund with restrictions is an independent process, downstream from the identification of that fund. Perhaps more could be done to reduce the superficial similarities and make it clearer to the reader the distinction between the test in paragraph G36.4 and the test in paragraph G36.9.</p>

1 Fund accounting	References	Response
		<p>We note that proposed paragraph AG36.17 refers to a ‘legal restriction’ rather than a ‘legal or equivalent restriction’. The latter would seem more consistent with proposed paragraph G36.9(a) and the omission of ‘or equivalent’ may create ambiguity.</p> <p><u>Charities SORP and UK requirements – definition of funds with restrictions</u>  We have some reservations about the definition of funds with restrictions as proposed in ED3, and consider that the definition may be problematic from a UK perspective. INPAG proposes a wider definition of funds with restrictions compared to the definition applied in the UK under Trust law in respect of restricted funds, so may require further consideration at jurisdictional level for some NPOs.</p> <p>Furthermore, in the UK there are strict rules and regulations governing the use of restricted funds, how these are managed and whether they may be transferred to unrestricted funds. In some cases, permission is required from the NPO’s sector regulators or the Court to move funds out of restricted funds to unrestricted funds. Therefore, such entities would need to apply a high degree of caution in adopting a wider definition of ‘funds with restrictions’ as proposed under INPAG, to avoid any legal pitfalls or consequences.</p> <p><u>Funds with restrictions and Enforceable Grant Arrangements (EGAs)</u>  INPAG proposes that EGAs are expected to be a part of funds with restrictions (paragraph BC36.8). We have some reservations about this default expectation given that not all EGAs would necessarily contain restrictions, for example when the enforceable grant obligations relate to the general purpose of the charity, even if that purpose is a specified purpose. An assessment should consider the substance of the arrangement and whether this creates any restrictions or not. Current UK practice requires such an assessment to determine whether the income is presented as restricted funds in a charity’s accounts.</p> <p>We also note that:</p> <ul style="list-style-type: none"> <li>proposed paragraph AG36.7 states that (emphasis added) ‘OFAs <u>can result</u> in a separate fund that is assessed as being a fund with restrictions’. We think</li> </ul>



1 Fund accounting	References	Response
		<p>this could be clearer. Presumably 'can' means 'may, or may not'. It could be clearer whether the intended reading is: (i) that an OFA may or may not result in a separate fund, and if it results in a separate fund that fund may or may not be a fund with restrictions; (ii) that if an OFA results in a separate fund, that fund will be assessed as a fund with restrictions; or (iii) something else.</p>
<p>e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?</p>	<p>G36.11–G36.12</p>	<p>We partially agree with the proposed approach but have some reservations and specific disagreements as noted below.</p> <p><u>Funds with non-zero balances</u>  Proposed paragraph AG36.12 states that a non-zero balance on a fund shall be carried forward 'where there is a realistic expectation that future income will be received to cover a shortfall or that additional expenses will be incurred'.</p> <p>We assume the comment about additional expenses is referring to a fund with a positive balance, and, if so, should be clearly distinguished from the requirements relating to a negative balance. If this does relate to positive balances it seems to imply that in the absence of the expectation of additional expenses, the balance would automatically be transferred elsewhere. We are not sure this would be appropriate in all cases, due to the restrictions applying to the fund.</p> <p>We assume the comment about future income to apply in the case of negative balances (when the fund is in deficit). We agree that a negative balance could be carried forward when there is a realistic expectation of relevant future income.</p> <p><u>Support costs and fund accounting</u>  Proposed paragraph G36.11 requires support costs to be 'charged to a fund, even if inclusion of such costs is not permitted under the terms of any arrangement that has resulted in the creation of a fund', and proposed paragraph G36.10 includes a similar requirement relating to grant arrangements (which would be treated as restricted funds). We do not agree with this principle for financial reporting purposes and do not consider it appropriate to charge support costs to a fund when their inclusion is not permitted under the terms of the relevant arrangement. Such an approach would be</p>

1 Fund accounting	References	Response
		<p>contrary to the definition of a restriction. However, we acknowledge that for management reporting purposes, an NPO may wish to monitor the full cost of delivering the relevant activity and therefore may include support costs.</p> <p>Further, we note the implication that the balance on the fund at any point in time may not match any donor reporting. As noted elsewhere, we make no comment on donor-specific reporting.</p> <p><u>Other points</u> We also note in passing that the final sentence of paragraph G36.12 contains the formation ‘if A or whether B’. If A and B form a complete set, it would be clearer to the reader if the paragraph said ‘whether A or whether B’.</p>
<p>f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?</p>	<p>G36.21–G36.23</p>	<p>Generally, we agree with the NPO fund disclosure requirements, and we note that proposed Section 36 of INPAG does not contain requirements to report assets and liabilities for each fund.</p> <p>However, the ‘proposal development’ box on page 7 of the invitation to comment suggests that there is such a requirement: <i>‘Discussion also focused on whether asset and liability information needs to be fund-specific. This requirement has been included in ED3 to mitigate against the need for immaterial transactions to be separately tracked and create a burden disproportionate to the benefits’.</i></p> <p>Proposed paragraph G36.22 does not appear to contain any requirement to disclose any breakdown of the assets or liabilities included in a fund. If such disclosure is required by other sections, it may be helpful to cross-refer accordingly.</p> <p>However, as noted earlier in this response, we do not agree with the requirement of proposed paragraph G36.22(e), because we consider information on any designated funds is better presented in the narrative report.</p>

1 Fund accounting	References	Response
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	<p>In our view, the examples provided do not demonstrate the key concepts in fund accounting in the best possible manner. For instance, the movement in funds in Note 4 separately discloses designated funds. In our view, as highlighted above in our response to Question 1(b), information on how funds are earmarked by an NPO as part of its overall strategy is best placed in other information as part of the narrative reporting in the annual report, as opposed to the notes to the financial statements.</p>
		<p><u>Other comments on Section 36</u></p> <p>Proposed paragraph G36.13 states that when a fund with restrictions is no longer required, ‘any balance on the fund ... shall be transferred to funds without restrictions and the fund closed where this is legally permissible’.</p> <p>It is unclear whether the reference to legal permissibility applies only to the closure of the fund, or also to the transfer of the balance to funds without restrictions. If it refers to transferring the balance, it could be reworded as ‘any balance on the fund ... shall, where legally permissible, be transferred to funds without restrictions and the fund closed’. However, we think there may be other situations besides legal non-permissibility in which it might be inappropriate to transfer the balance to funds without restrictions: for example, if there was an expectation, albeit not legally-enforceable, on the part of the donor that any excess funds would be returned. This may create a moral or ethical requirement to keep the fund open until it is appropriate to close or transfer out the remaining balance.</p>

## Question 2: Presentation of expenses, fundraising costs and related disclosures

INPAG Section 24 Part II provides guidance on the presentation of expenses. It permits an expense analysis by nature, by function, or a mixture of the two. It includes a rebuttable presumption that an analysis by nature is used unless another analysis provides information that is more relevant and reliable. Guidance is provided on the allocation and aggregation of costs where a functional or mixed presentation is used, which will be useful for calculating support costs. INPAG Section 24 Part III provides a definition of fundraising activities and identifies three categories to be disclosed: activities to generate donations, gifts and similar transfers; commercial and trading activities; and investment management. There is a pragmatic exception where costs need to be split between fundraising and other activities.

INPAG Section 33 on related party disclosures draws attention to the possibility that an NPO's financial position and/or its surplus or deficit have been affected by the existence of related parties. Disclosure is required of personnel compensation made to governing body members as well as key management personnel. INPAG Section 28 has been updated to include the disclosure of short term employee related benefits.

2 Presentation of expenses	References	Response
		<p><u>Expense classification – general comments</u></p> <p>Proposed paragraph G24.43 states that the analysis of expenses must be presented in the SOIE or in the notes to the financial statements. We think that this optionality, on top of the optionality discussed below over the basis used to analyse the expenses, may significantly reduce comparability between NPOs, which may not be helpful for users.</p> <p>In addition, we think it may be unclear what the SOIE will look like if the classification of expenses (and indeed the disclosure of fundraising costs) is presented in the notes: is it possible to present a SOIE which neither analyses expenses by nature, nor by function? Paragraph 78 of IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> does not allow for such an approach.</p>
<p>a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?</p>	<p>G24.43–G24.47, AG24.45–AG24.47</p>	<p>We presume that the question is whether there <i>should be</i> a rebuttable presumption as described. We do not agree that there should be a rebuttable presumption in respect of classification of expenditure.</p> <p><u>IFRS 18 and INPAG</u></p> <p>We understand that the development of INPAG takes into account relevant IASB projects. At the time of the publication of ED3, the IASB had recently issued IFRS 18 <i>Presentation and Disclosure in Financial Statements</i> in April 2024. We understand that</p>

2 Presentation of expenses	References	Response
		<p>this project was considered by INPAG as part of developing INPAG when the exposure draft which later became IFRS 18 was issued.</p> <p>We consider that IFRS 18 is relevant to INPAG given that it represents the latest developments by the IASB (albeit that it has not yet been considered for inclusion in the <i>IFRS for SMEs</i> Accounting Standard) and, as noted below, as currently drafted INPAG is less flexible than IFRS 18.</p> <p>Paragraph BC24.54 refers to the expectation ‘at that time’ of what the IASB’s Primary Financial Statements project (which resulted in IFRS 18) would require and permit. It is not clear to what degree INPAG ED3 has taken into account the requirements of IFRS 18 in its final form. We think INPAG should take this into account when finalising its Guidance.</p> <p>Paragraph 78 of IFRS 18 allows an entity to present an analysis of expenses in the operating category by one or both of their nature and their function. Paragraph 83 of IFRS 18 also requires certain line items (such as depreciation, impairment losses, and amortisation) to be presented in the notes to the financial statements when operating expenses have been classified by function.</p> <p>IFRS 18 does not contain a rebuttable presumption as to which presentation approach may be applied and is more flexible than INPAG in this respect. We suggest that INPAG revisits the inclusion of a rebuttable presumption in its Guidance considering the development of IFRS 18.</p> <p>We also note that paragraphs G24.46, G24.47 and AG24.48 of INPAG do not require the disclosure of the NPO’s total costs for items such as employee benefits and depreciation, whereas under paragraph 83 of IFRS 18, the entity is required to provide the totals for such items when using a ‘by function’ or mixed expenses analysis.</p> <p><u>Inclusion of the rebuttable presumption</u></p>

2 Presentation of expenses	References	Response
		<p>Overall, we do not support the inclusion of a rebuttable presumption as we do not agree that 'by nature' can be presumed to be the best form of presentation of expenditure for an NPO. We are, therefore, not convinced this is a good starting presumption that will be helpful for preparers. We consider that an approach similar to IFRS 18 would be more appropriate because:</p> <ul style="list-style-type: none"> <li>• In our view, the natural classification cannot be presumed to provide more relevant and reliable information to users, and in practice using this default position is likely to be less useful for users' understandability and decision-making. We expect that many NPOs will be likely to rebut this presumption, which suggests it is not the most appropriate starting point. Indeed, in the UK, larger charities are required by paragraph 4.6 of the Charities SORP to present expenditure by activity (i.e. by function) as this is considered more reliable and useful for the users of the accounts.</li> <li>• We believe that a presentation of expenditure 'by nature' does not align well with INPAG's proposals for fund accounting, which appear to be based on the principles of activity reporting. Based on our understanding and experience, we believe that activity reporting is what users want and that this is why the INPAG proposals include fund accounting presentation as a key requirement.</li> <li>• There is a potential risk that some NPOs may apply the default approach of 'by nature' without considering whether the presentation meets the needs of the users of its financial statements.</li> </ul> <p><u>IAS 1 Presentation of Financial Statements</u></p> <ul style="list-style-type: none"> <li>• Whilst our response focuses on relevant IFRS 18 developments, we also wish to highlight that the extant IAS 1 requirements, on which the <i>IFRS for SMEs</i> Accounting Standard is based, do not include a rebuttable presumption for presentation of expenditure either. Instead, paragraph 99 of IAS 1 requires that management select the presentation that is reliable and more relevant, without prescribing a default position.</li> <li>• Paragraph 104 of IAS 1 also includes a requirement for an entity that presents expenses by function, to provide additional information by nature for line items such as depreciation, amortisation and employee benefits. This</li> </ul>

2 Presentation of expenses	References	Response
		<p>supports our earlier point that INPAG should revisit the drafting to ensure that such relevant and useful information is not omitted where an NPO chooses to apply either the functional or mixed presentation approach.</p> <p><u>Other observations</u></p> <ul style="list-style-type: none"> <li>Paragraph BC24.59 – there is an inconsistency between the rationale that is applied in the Basis for Conclusions and paragraph G24.44. Paragraph BC24.59 states that stakeholders considered a ‘by nature’ analysis to be ‘the most simple to prepare’, and that it would be permitted by accounting software. Similarly, the ‘proposal development’ box on page 9 of the invitation to comment states clearly that ‘a nature of expenses classification was chosen as the default as it was thought likely to be easier to implement’. However, paragraph G24.44 states a rebuttable presumption that a ‘by nature’ analysis will provide ‘the most relevant and reliable information to users’. Whilst it is quite possible that all of these things are true (although see our comments above), it is notable that the presumption set out in paragraph G24.44 is not one of the considerations discussed in paragraph BC24.59. The reader is left unsure of the evidence base for the rebuttable presumption.</li> </ul> <p><u>Drafting points</u></p> <ul style="list-style-type: none"> <li>The style of the headings above paragraphs G24.45, G24.46 and G24.47 is inconsistent.</li> <li>In paragraph BC24.60, we think that an instance of ‘is used’ should be ‘were used’.</li> </ul>
b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44	Whilst we agree that, in general, disclosure of the rationale for rebutting a rebuttable presumption would be helpful to the users of the financial statements, we question both the inclusion of a rebuttable presumption in this instance and the classification ‘by nature’ approach, as per our comments in Question 2(a) above.
c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of	G24.46, AG24.48	This may be a proportionate approach for NPOs. However, see our comments in Question 2(a) with regards to disclosure when using a ‘by function’ or mixed

2 Presentation of expenses	References	Response
<p>expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?</p>		<p>approach to presentation and the requirement under paragraph 83 of IFRS 18 to quantify items such as depreciation, amortisation, employee benefits etc.</p> <p>We note that proposed paragraph AG24.48 states that ‘quantification of these amounts may be useful as part of the narrative description’. We think this may result in confusion amongst preparers, as proposed paragraphs G24.46 and G24.47 do not require this. Additional requirements should not be introduced through the Application Guidance. If it is intended that quantification is required, it may be better to include this as a requirement in proposed paragraphs G24.46 and G24.47.</p> <p>It may also be clearer to the reader to refer, in proposed paragraphs G24.46 and G24.47, to ‘the nature of expenses included in each functional line item’ rather than ‘what types of expenses (based on their nature) are included in each functional line item’. This would be similar to the wording of paragraph 82(b) of IFRS 18.</p> <p>We are particularly concerned that, unlike in IFRS 18, there is no requirement to provide transparency over the totals for particular expense categories such as staff costs. This was illustrated in your webinars to support ED3: an example of mixed presentation involved some staff costs being subsumed into a function line item, whilst the remainder of the staff costs were presented as a nature line item which, to the user, appeared at first glance to represent the total staff costs. The application of at least a requirement similar to that in paragraph B82 of IFRS 18, to label the ‘staff costs’ nature line item to clearly identify that it does not include all staff costs, would go some way towards addressing this concern.</p> <p>We note in passing that the reference in proposed paragraph AG24.48 to proposed paragraph G24.48 should, presumably, be to G24.46.</p>
<p>d) Do you agree with the expense disclosure requirements? If not, what would you change and why?</p>	<p>G24.50–G24.57, G33.7–G33.11, G28.38</p>	<p>We have some observations on paragraph G24.51 as follows:</p> <ul style="list-style-type: none"> <li>• We find the syntax of this paragraph unclear. Is it to be read as (i) ‘an NPO shall disclose in the analysis of expenses or the notes, if not already presented in the Statement of Income and Expenses...’ or (ii) ‘if not already</li> </ul>



2 Presentation of expenses	References	Response
		<p>presented in either the Statement of Income Expenses, the analysis of expenses, or the notes, an NPO shall disclose...?</p> <p><u>Other point – Benefits received by volunteers</u></p> <ul style="list-style-type: none"> <li>• It is not clear what sort of benefits may be provided to volunteers; some examples in this area would aid preparers.</li> <li>• We assume that volunteer benefits might be intended to include travel costs and subsistence to enable them to undertake the volunteering. However, this is not clear in the Guidance and we suggest that a definition is included for benefits received by volunteers. In contrast there does not appear to any requirement to disclose employee travel and subsistence costs which have been reimbursed by the NPO.</li> <li>• We understand that (given the lack of clarity) proposed paragraph G24.51(a) requires volunteer benefits to be disclosed even if they are provided on equivalent / same terms as employees or other eligible service recipients (depending on the nature of the benefit). If our understanding is correct, this proposal is more onerous than the requirements for transactions with members of the governing body in proposed paragraph G33.18(b). It is not clear what the rationale for this is.</li> <li>• In some cases, there may be a large volume of transactions providing benefits to volunteers, or a significant process required to check whether or not there have been any benefits provided. Depending on what type of volunteer benefits are in scope of the proposed disclosure requirements, we would suggest that INPAG considers what the practical implications of this may be, taking into account materiality.</li> <li>• The requirement of paragraph G24.51(a) is not clear whether it requires an aggregate figure, or whether disclosure of specific transactions is required. We assume the former, and consider that if this requirement is retained in the final Guidance, it should be clarified that what is required is an aggregate disclosure. (In contrast, paragraph G24.57 makes clear whether and when the information required by paragraph G24.51(b) can be aggregated.) We suggest this is clarified in the Guidance.</li> </ul>

2 Presentation of expenses	References	Response
<p>e) Do you agree with the description of direct costs, shared costs and support costs and that these allow the full cost of an activity to be identified? If not, why not?</p>	<p>G24.48–G24.49</p>	<p>We note that proposed paragraph G24.67 refers to a need to attribute direct, shared and support costs to calculate fundraising costs. It may be worth acknowledging that whether support costs are included depends on the choice made under proposed paragraph G24.49(c).</p> <p>There is also a risk that the accounting policy choice in G24.49(c) may be overlooked by preparers or users. This choice will reduce comparability and we encourage you to satisfy yourselves that it remains beneficial.</p> <p>Proposed paragraph G24.48 uses the term ‘allocation’ and G24.49 uses the terms ‘attribution’ and ‘apportionment’. We suggest that INPAG review the various terms, aim to rationalise and ensure consistency in usage.</p>
		<p><u>Fundraising costs – general</u></p> <p>We think it could be clearer how the requirement to disclose fundraising costs interacts with the other requirements for the presentation of the SOIE. For example, if a functional classification is used, are fundraising costs to be considered a function in themselves, or would they be expected to contribute to multiple functions?</p> <p>We are not convinced that it is desirable to offer a free choice of whether to disclose the fundraising costs on the face of the SOIE or in the notes. The former option could make it challenging for users of financial statements to compare different NPOs, particularly given the flexibility already offered in the presentation of expenses (discussed above). If fundraising costs are presented on the face of the SOIE, the other expenses presented (whether by nature or by function) will necessarily be different than if fundraising costs were presented in the notes. We suggest considering requiring the fundraising costs to be disclosed in the notes.</p> <p>We note that proposed paragraph G24.71 states that ‘investment management costs specific to a fund shall be charged to that specific fund in accordance with the requirements of Section 36’. We think this is potentially confusing as this is a separate matter, already addressed by Section 36, and does not affect the amount of fundraising costs to be disclosed in accordance with Section 24 Part III <i>Fundraising costs</i>.</p>

2 Presentation of expenses	References	Response
		<p>We note in passing that:</p> <ul style="list-style-type: none"> <li>• proposed paragraph G24.61 is missing an apostrophe in ‘an NPOs activities’.</li> <li>• in the same paragraph, a comma might be useful after ‘under INPAG’ for ease of reading.</li> </ul>
<p>f) Do you agree that commercial and trading activities that are for the purposes of fundraising[,] and investment management costs associated with a fund whose purpose is to generate future returns[,] are included as fundraising activities? If not, why not?</p>	<p>G24.64–G24.66</p>	<p>Overall, we agree with the proposed approach. However, we have some reservations on the wording of proposed paragraph G24.66 which states ‘Where an NPO holds an investment <i>that it relies on</i> to generate returns to be able to carry out its missional purposes, investment management is considered as a category of fundraising costs’ (emphasis added). This is a narrower scope than suggested by the question as phrased here. It is not clear under INPAG why the NPO should categorise only those particular investment costs as fundraising costs.</p> <p>We would expect that investment costs may arise in a number of circumstances where the NPO is not reliant on the returns for its working capital but is investing in funds for good treasury management purposes. There will be investment management costs associated with such funds held for treasury management, such as on-going fees on the administration of the investments. We suggest that such funds should also be classified as fundraising costs. We suggest the wording should be revisited and the term ‘relies’ should be removed to state ‘Where an NPO holds an investment to generate returns...’.</p> <p>With regards to investment management costs, paragraph 4.48 of the Charities SORP provides an additional practical exemption whereby ‘charities are not expected to prorate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme’. INPAG may wish to include a similar exemption given that this additional exercise may not result in more relevant or useful information and it may not be proportionate to require NPOs to do this allocation, on a cost-benefits basis.</p>
<p>g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the</p>	<p>G24.72</p>	<p>Overall, we do not agree with the pragmatic exception on the grounds of undue cost or effort. FRS 102 contains no ‘undue cost or effort’ exceptions; however, we appreciate that the foundational framework does.</p>

2 Presentation of expenses	References	Response
<p>information benefit to stakeholders? If not, what would you change and why?</p>		<p>Proposed paragraph G24.73 refers to ‘undue cost or effort’, whilst proposed paragraph AG24.50 refers to situations when ‘the costs of estimating or measuring the split are greater than the benefit’, and question 2(g) refers to situations when ‘the cost of doing so would exceed the information benefit to stakeholders’. It is not obvious that these are all synonymous. We recommend consistency. We also note that paragraph BC24.84 uses yet another term, ‘due to materiality’, but it is clear from paragraph BC24.82 that this was a rejected proposal and is not intended to be synonymous.</p> <p>We consider fundraising expenditures to be an important area that users are interested in and could be important for donor decision-making. Therefore, disclosure is important for transparency, and we suggest that a more prescriptive approach to fundraising cost disclosures should be required.</p> <p><u>Disclosure</u></p> <p>Proposed paragraph AG24.51 states that ‘costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial.’ We also note this paragraph contains both a requirement and the rationale for that requirement; the rationale should usually be included in the Basis for Conclusions.</p> <p>However, it is not clear how this may be applied in practice. If one or more individual categories was immaterial, would fundraising costs simply be disclosed in aggregate? Or, if still disclosed in categories, would the immaterial costs be omitted (such that the total fundraising costs disclosed were lower than the actual total), or would the immaterial costs be reported as ‘other’ fundraising costs (which, if only one category was immaterial, would in effect simply represent changing the caption prescribed in G24.60 to ‘other’)? Given the various permutations that are possible in this scenario, one may consider that a ‘by function’ approach to presentation of expenditure, with the general application of materiality, may be the most relevant for most NPOs.</p> <p>Proposed paragraph G24.76 requires an NPO to disclose ‘whether costs have been allocated between more than one purpose and/or whether the pragmatic exception</p>

2 Presentation of expenses	References	Response
		<p>... has been applied'. We presume that this is 'and/or' because it is possible to apply the pragmatic exception on an expense-by-expense basis (with some expenses incurred for more than one purpose being split, and others not being split for undue cost or effort reasons). If so, this could be made clearer in paragraph G24.73.</p> <p>We also note that paragraph G24.76 does not require an NPO to disclose <i>how</i> costs have been allocated between more than one purpose. This seems inconsistent with the requirement to provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs (also in paragraph G24.76), and the requirement to disclose the basis used in apportioning shared costs and support costs (G24.50).</p> <p>Paragraph BC24.84 refers to certain disclosure requirements being 'discussed' and being 'supported', without making clear that (as appears to be the case), those requirements have indeed been proposed.</p> <p><u>Other observations</u></p> <ul style="list-style-type: none"> <li>• The paragraph reference to G24.72 in this response template appears to be incorrect and should read G24.73.</li> <li>• The references to G24.71 in proposed paragraphs G24.76 and AG24.50 appear to be incorrect and should presumably read G24.73.</li> <li>• We suggest revisiting the syntax and/or punctuation of proposed paragraph G24.73 to ensure clarity.</li> </ul>
h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?	G24.74	<p>We support this disclosure and agree that the fundraising activity costs should be presented gross. Offsetting against income is not permitted under Section 2 <i>Concepts and Pervasive Principles</i> of the <i>IFRS for SMEs</i> Accounting Standard and therefore should also be prohibited by INPAG.</p> <p>Proposed paragraph G24.75 requires that 'where an NPO deems that users of the general purpose financial reports would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs and related revenue are presented gross'. In our view, it is not</p>

2 Presentation of expenses	References	Response
		<p>always easy or practical to allocate fundraising costs against the fundraising income given that in some cases the expenditure cannot be directly attributed to a specific income stream for the NPO.</p> <p><u>Other observations</u> The illustrative financial statements do not show, in Note 11, the split across the three categories, as the example provided only includes one category. This is not helpful in demonstrating the disclosure requirements of INPAG and we suggest that the example is broadened to allow for all three categories to be presented.</p>
<p>i) Do you agree that grants or donations made in arm’s-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?</p>	<p>G33.18 a)– G33.18 b)</p>	<p><b>Related party transactions</b></p> <p>Overall, we support the disclosure exemptions and understand the need to be proportionate, except for the areas noted below.</p> <p>In considering the disclosure requirements for related party transactions, we note that the disclosure objective is ‘to draw attention to the possibility that an entity’s financial position and surplus/deficit have been affected by the existence of related parties and by transactions and outstanding balances with such parties’ (paragraph G33.1). Our comments below consider this disclosure objective in the context of some common related party transactions with governing body members.</p> <p><u>Significant or material donations</u> ED3 proposes that grants and donations made in arm’s-length transactions by governing body members need not be disclosed. We think that this disclosure exemption may not be appropriate when there are individual donations which are significant or material, even though made at arm’s length. Such levels of donations may not be sustainable, and omitting such disclosure from the financial statements could impact users’ understanding and decision-making.</p> <p><u>Charities SORP – related party transactions with Trustees</u> Overall, the disclosure exemptions proposed in INPAG are similar to those in paragraph 9.18 of the Charities SORP, except for the SORP requirement to disclose total donations without conditions made by trustees, which we understand can introduce some practical challenges. In our view the exemptions in INPAG appear to</p>

2 Presentation of expenses	References	Response
		<p>be reasonable and proportionate.</p> <p><u>Outstanding payments owed by governing body members</u></p> <p>In our view, the drafting in ED3 is not clear on the interaction between the disclosure requirements of proposed paragraph G33.14 in respect of any outstanding amounts due and the exemption set out in proposed paragraph G33.18(b). For instance, it is possible that a member of the governing body may be a recipient of services made in accordance with the NPO's primary purpose, where the services are provided on the same terms as other eligible service recipients, but the member has outstanding balances owed to the NPO at the reporting date. If such balances are outside normal payment terms, we think it may be inappropriate for them not to be disclosed.</p> <p>For example, if a board member of an NPO that provides social housing is a tenant of that NPO, and has significant outstanding payments or arrears, we would expect disclosure of the outstanding related party balance, rather than exemption under paragraph G33.18(b). We suggest that INPAG does not provide an exemption in such scenarios.</p>

### Question 3: Supplementary information and INPAG Practice Guide 1 – Supplementary statements

INPAG Section 37 requires additional information to be disclosed when an NPO produces one or more supplementary statements using INPAG Practice Guide 1. NPOs may choose to prepare a single note to meet the requirements or disclose only the additional information. INPAG Practice Guide 1 – Supplementary Statements enables the presentation of key financial information about a specified activity, project or grant, in a prescribed statement format, which can be included as an Annex to the financial statements. The Practice Guide provides templates for different variants of reporting that includes comparison to budget, multiple grants, multiple time periods and different currencies.

3 INPAG Practice Guide 1	References	Response
a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1– Supplementary statements? If not, why not?	G37.1–G37.2	We have not responded to Questions 3(a) to (e). However, we have provided some general feedback on Section 37 <i>Supplementary information</i> in the General Feedback section of this consultation response template.
b) Do you agree that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?	G37.3, G37.10–G37.12	
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	
d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?	SS.18–SS.21	
e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?	SS.25–SS.26	



#### Question 4: Illustrative financial statements

INPAG Implementation Guidance Annex A includes Illustrative financial statements. The templates have been populated with data to cover the most common NPO transactions. The illustrative financial statements focus on new INPAG requirements.

4 Illustrative financial statements	References	Response
<p>a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?</p>	<p>Illustrative financial statements</p>	<p>We have not carried out a detailed review of the illustrative financial statements.</p> <p>Illustrative financial statements have merit in aiding preparers who may struggle with the requirements without any examples. However, they also introduce a risk of poorer-quality 'boilerplate' financial reporting. Whilst we are not opposed to illustrative financial statements being available to preparers, we are concerned that INPAG (as standard setter) producing illustrative financial statements to cover an international audience presents significant difficulties that may arise from the wide variation in jurisdictional requirements.</p> <p>Further, illustrative financial statements issued by standard setters may have unintended consequences in terms of how preparers interpret such supporting material, considering it a requirement, as opposed to following the accounting standards for their specific facts and circumstances. Therefore, the production of illustrative financial statements may be best left to other suitable bodies.</p> <p><u>Other points</u></p> <p>We suggest that any illustrative INPAG financial statements should contain the relevant paragraph references for all presentation and disclosure requirements and for the examples included in the Implementation Guidance.</p> <p>In our view, the illustrative financial statements should contain only items which are required by the accounting standards, and not any optional items going beyond the requirements, as this could lead to NPOs believing they must include those additional disclosures in their financial statements. However, if the illustrative financial statements do contain disclosures which are optional, or which are required because they are material in the case of the example entity, then this should be made very clear. We also suggest that it may be useful for the illustrative financial statements to</p>

		set out any generic caveats around their use and that they do not cover all possible facts and circumstances.
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### Question 5: Equity

INPAG Section 2 provides the concepts and principles on which INPAG is based. Amendments are proposed to equity and net assets as a result of feedback. Net assets is a new element defined as the residual amount of an NPO's assets and liabilities available to achieve its objectives. The term equity claim is introduced to describe equity type instruments, which is a subset of net assets. INPAG Section 22 has the principles for classifying financial instruments as either liabilities or equity claims. As INPAG does not use the term equity, consequential amendments reflect the expected nature of NPO equity claims.

5 Equity	References	Response
a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?	G2.73	The proposed updates to this section in respect of equity address the concerns we had previously raised in ED1 on the definition of equity and net assets.  We have no other comments to add and have not responded further to Question 5.
b) Do you agree with the use of the term equity claims in Sections 2 and 22 and that equity claims are a subset of net assets? If not, what would you change and why?	G2.74, AG2.6, AG2.7, Section 22	
c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed from and that the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?	G22.12–G22.15	

## Question 6: Transition to INPAG

INPAG Section 38 describes the requirements for recognising and measuring assets and liabilities to create a Statement of Financial Position when INPAG is adopted for the first time. Accumulated funds that contain historic surpluses and deficits must be split between funds with restrictions and funds without restrictions. Compliance with just the financial statements can be asserted ahead of full compliance. The narrative reporting requirements must be completed within a two-year period to be able to continue to express compliance with INPAG.

6 Transition to INPAG	References	Response
(a) Do you agree with the pragmatic approaches proposed for the first time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?	G38.11–G38.12	We have not responded to this question.
(b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?	G38.5–G38.6	<p>We agree that implementation should be based on providing compliant financial statements in the first instance. However, we have some reservations about the proposed phased approach and whether it is appropriate that compliance with INPAG in relation to the financial statements only is limited to a two-year transitional period. This approach may place a disproportionate burden on smaller NPOs (if indeed INPAG is intended to be used by smaller NPOs) with limited resources and capacity.</p> <p>Such smaller NPOs, and any other NPOs implementing accrual-basis accounting for the first time as part of the adoption of INPAG, will have just embedded new and improved practices to achieve high-quality financial reporting under INPAG. Within two years they may also have to make further significant changes to their reporting processes in order to comply with the narrative reporting requirements, if they are to claim ongoing compliance with INPAG. Although we agree that proportionate narrative reporting is an important part of high-quality reporting, the timescale could be a challenge for some NPOs.</p> <p>Two alternatives to consider are:</p> <ul style="list-style-type: none"> <li>(a) whether the narrative reporting requirements should have a longer implementation period and not be required until a later date, either by giving a longer transition period or by setting a separate effective date; and</li> <li>(b) whether different requirements could apply to smaller entities (if indeed smaller NPOs are considered to be in scope for INPAG), although we</li> </ul>

6 Transition to INPAG	References	Response
		<p>acknowledge that creates the challenge of consistently defining smaller NPOs in an international context.</p> <p>We note that setting compliance requirements and effective dates could be a jurisdictional implementation decision, so that individual jurisdictions may decide when they will require NPOs to achieve compliance with INPAG in full, or with the financial statements or narrative reporting requirements of INPAG individually.</p>

## Question 7: Application of fair value

INPAG Section 12 describes how to measure assets and liabilities using fair value. The use of fair value to determine the deemed cost of donated assets is reflected in INPAG Section 16, for investments in land or buildings that are held to earn rentals or for their capital appreciation, INPAG Section 17, for property, plant and equipment, including capitalisation and depreciation and INPAG Section 18, for identifiable non-monetary assets that does not have a physical substance (eg licenses). The cost model in Section 17 applies to all tangible assets that are held for use in the activities of the NPO and are expected to be used during more than one period as well as to property held to deliver an NPO's missional objectives, eg social housing. There are no exceptions for assets that are funded by grants or donations.

7 Application of fair value	References	Responses
<p>a) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?</p>	<p>AG12.1- AG12.11</p>	<p>We previously noted some fundamental disagreements in this area in our response to ED2, in particular on the subject of measuring donated services such as volunteer time at fair value.</p> <p>In addition, we note:</p> <ul style="list-style-type: none"> <li>• Page 16 of the invitation to comment and proposed paragraph AG12.2(c) suggest that the majority of assets held for delivering NPO objectives will be part of Level 3 in the fair value hierarchy. This does not appear to be correct as we would expect that most donated assets should be at Level 1 or Level 2 fair value. For instance, we would expect an NPO to be able to measure a donated minibus, or donated laptops, under Level 1 in the fair value hierarchy.</li> <li>• We are unsure how it is possible, as per proposed paragraph AG12.2(b), for a property that is held for social purpose also to meet the definition of an investment property.</li> <li>• The wording of proposed paragraph AG12.7 is confusing. It is the deemed cost of the donated asset which is its fair value, not the other way around.</li> <li>• In Example 5 <i>Implementation Guidance: Fair value measurement- Donation of an asset that has a specification greater than required for operations</i>, the calculation of fair value does not apply a market valuation, suggesting instead that market value is not relevant to the NPO in measuring the fair value of the donated office space. We are not convinced that this is correct, are concerned that this is not the appropriate application of a Level 3 valuation, and also question why the fair value of most donations in-kind would not be determinable at Level 1 or Level 2.</li> </ul>

7 Application of fair value	References	Responses
		<p><u>Extract of Example 5 Implementation Guidance Fair value measurement– Donation of an asset that has a specification greater than required for operations</u></p> <p><i>The market value of the office space is therefore not relevant to the NPO and it is the service capacity that is relevant and needs to be measured. The fair value of the office space will therefore be determined with reference to office space that would meet operational needs of the NPO. The NPO is able to operate effectively with office space in an area of the town that is cheaper to lease. In this example, the NPO should use the market value of the office space that it would otherwise have used for operational purposes. The market value of the donated office space in this example is not relevant for the NPO in measuring the value of the donated office space.</i></p> <p>The above application of fair value in Example 5 appears to be akin to a ‘value to the entity’, rather than fair value, of the donated asset, which is not what was proposed in ED2. Further, the above example appears to conflict with the requirements of proposed paragraph AG12.8 which states that ‘either the market approach, cost approach or income approach’ should be used to measure assets arising from donations in-kind.</p> <p>We suggest the example is revisited to ensure it reflects the requirements of INPAG and the appropriate application of fair value is being used.</p>
<p>b) Do you agree with the additional guidance provided for donated:</p> <ul style="list-style-type: none"> <li>i) investment property (Section 16)?</li> <li>ii) property, plant and equipment (Section 17)?</li> <li>iii) intangible assets (Section 18)?</li> </ul> <p>If not, why not?</p>	<p>G16.7 G17.10 G18.14</p>	<p>We have not responded to this question.</p>

### Question 8: Impairments

INPAG Section 27 requires that the carrying amount of an asset is reduced to the recoverable amount, where its carrying amount is higher than its recoverable amount. The new measurement base for inventories held for distribution at no or nominal cost has been added. The Section refers to an NPO's 'operating units' to encompass assets that are held for missional purposes rather than purely cash-generation.

8 Impairments	References	Responses
a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?	G27.2-G27.4	We have not responded to Question 8.
b) Do you agree that the term operating unit better reflects the nature of an NPO's operations and with its proposed definition? If not, what alternative term would you use and why?	G27.8	
c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?	G27.15	



**Question 9: Combinations of entities**

INPAG Section 19 applies to the combining of entities, (including NPOs) that meet the definition of a business. The term business has been broadened to include the types of activities carried out by NPOs. It provides guidance on the recognition and measurement of the assets and liabilities acquired in a combination and includes a simplification where there is a combination of two NPOs that both have positive net assets.

9 Combinations of entities	References	Responses
a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?	G19.4, G19.5, AG19.1-AG19.2	We have not responded to Question 9.
b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise?	G19.24	

### Question 10: Other topics in Exposure Draft 3

INPAG Section 14 and INPAG Section 15 provide guidance on accounting for associates and joint arrangements in consolidated and separate financial statements respectively. INPAG Section 20 covers the accounting for all leases and INPAG Section 34 provides guidance on three types of specialised activities: agriculture, extractive activities and service concessions. None of these Sections have been amended other than for terminology changes.

10 Other topics in ED3	References	Response
a) Do you agree that no further alignment changes are needed to: i) Section 14 Investment in associates? ii) Section 15 Joint arrangements? iii) Section 20 Leases? If not, why not?	Section 14 Section 15 Section 20	We have not responded to Question 10.
b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34	

### Question 11: IFRS for SMEs Addendum

INPAG Section 7 and INPAG Section 30 (published in ED1 and ED2 respectively) have been updated as a consequence of additional text proposed in the Addendum to the draft Third edition of the IFRS for SMEs Accounting Standard issued by the International Accounting Standards Board on 28 March 2024. There is additional text on supplier finance arrangements in Section 7 and lack of exchangeability in Section 30.

11 Addendum	References	Responses
<p>a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?</p>	<p>G7.20A–G7.20B,</p>	<p>We consider that guidance on supplier finance arrangements (SFAs) could be useful and relevant for some NPOs.</p> <p>In March 2024 we published the <i>Periodic Review 2024 amendments</i> to FRS 102, which included supplier finance arrangements disclosure requirements based on the requirements of IAS 7 <i>Statement of Cash Flows</i> with some amendments on the grounds of proportionality. INPAG proposes in paragraph G7.20B(b)(ii) to require disclosure of amounts settled by finance providers with suppliers. We think this may not be proportionate for NPOs, considering the additional cost-benefit burdens faced by such entities. We omitted an equivalent requirement from FRS 102. This is also discussed in our response to the IASB’s Addendum exposure draft, available <a href="#">on our website</a>.</p> <p>Generally, we do not expect there to be a need for NPO-specific guidance in relation to supplier finance arrangements (though certain requirements may be omitted as per above), and we suggest that INPAG should follow the foundational framework once the IASB has finalised the requirements of the <i>IFRS for SMEs</i> Accounting Standard.</p>
<p>b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?</p>	<p>G30.5A, G30-31–32, AG30.26–AG30.43</p>	<p>We agree that the guidance on lack of exchangeability is likely to be useful and relevant to some NPOs internationally.</p> <p>From a UK perspective, lack of exchangeability is unlikely to be a prevalent issue. Further, we do not expect there to be a need for NPO-specific guidance in relation to lack of exchangeability, and INPAG should follow the foundational framework after the IASB has finalised the requirements of the <i>IFRS for SMEs</i> Accounting Standard.</p>

## General Feedback

Please share any other comments that you wish to raise on Exposure Draft 3. When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.

Reference	Comment
Overall quality and consistency of drafting, and scale of INPAG project	<p>During our review of ED3 and previous EDs, we have noted a lack of consistency in various places of the proposed drafting. For instance, we noted inconsistencies between related paragraphs, the Guidance and the Application Guidance, and between the Guidance and the Basis for Conclusions. We have also noted instances when the rationale is included in the Guidance, rather than the Basis for Conclusions. We recommend that INPAG reconsiders the way rationale is expressed in the Guidance, and specifically reconsiders the balance between the Guidance itself and the Basis for Conclusions. We have highlighted examples of this in our responses.</p> <p>Whilst we appreciate the challenges in drafting such documents, inconsistencies lead to a risk that stakeholders will struggle to understand the final Guidance and engage with it in a manner that will result in good quality reporting.</p> <p>As mentioned previously in our response to ED2, we continue to remain concerned with the scale of the INPAG project in terms of the layers of complexity, optionality, and sheer volume of content. Given the amount of content that stakeholders will need to engage with, we believe there is a substantial risk that the overall project objective of producing high-quality financial reporting may be compromised.</p>
Section 37 <i>Supplementary information</i>	<p>We have limited comments on this topic as our focus is on the general-purpose financial statements. However, we have some observations:</p> <ul style="list-style-type: none"> <li>• Including supplementary information outside the general-purpose financial statements (GPFS) as an appendix to the GPFS may cause clutter for users of the financial statements due to the volume of potential additional information making the reporting unwieldy. There may also be added confusion for users when some of the supplementary information is not subject to audit.</li> <li>• As previously mentioned in our response to ED2, we have some reservations about the scale and wide scope of the INPAG project. We suggest that both Section 37 <i>Supplementary information</i> and its related Practice Guide are published separately from INPAG.</li> <li>• If Section 37 is included as part of the final Guidance, we suggest that it is relocated. It should ideally sit outside the main framework. If, however, it must sit within the main framework, we suggest the section numbering is revisited, so that it follows after all GPFS sections.</li> </ul>

Reference	Comment
Smaller NPOs and INPAG	We have understood from various INPAG outreach activities that INPAG is not intended to be suitable for smaller NPOs to apply. If this is correct, then we suggest it may be worth considering clearly defining a smaller NPO and including this in the Guidance. The intention should be clear on publication of the Guidance so that those who adopt INPAG can make informed decisions about its suitability for their specific circumstances.