



IFR4NPO Project

Advice and Requests

Technical Advisory Group meeting

21 January 2025

TAGFG05





TAG meeting 21 January 2025

Attendees	Apologies
Ian Carruthers (Chair)	Bee Leng Tan
Catherine Asemeit	Iheanyi Anyawara
Bill Biese	Katherine Knowlton
Jenny Carter (items 1 and 2 part)	Observers
Fridrich Housa	Jeff Gabello
Mohammad Anwarul Karim	Tim Boyes-Watson
Tamba Momoh	Samantha Musoke
Jeffrey Mechanick	
Daniel Sarmiento Pavas	Staff
Bernhard Schatz (items 1 and 2)	Karen Sanderson
Jianqiao Lu	Nandita Hume
	Sarah Sheen
	Paul Mason



Session outline

- Revenue
- Classification of expenses and fundraising costs
- Related parties
- Liabilities and equity
- Fair value and asset related topics

Agenda item 1 – Revenue

1.1 Revenue

- a) Including outcomes in the definition of a delivery obligation is unlikely to have sufficient specificity and may be hard to measure.
- b) The proposed explanatory text for a delivery obligation is helpful, but it would be useful to include this with the definition. Generally, expand definitional material rather than using additional guidance or examples.
- c) Clarification of paragraph G23.9 in applying 'control of resources' is needed in situations where an NPO has control of the resources, but needs further approvals, for example to move spend between budget headings or purchase items above defined financial thresholds. The current references to authorisation may not be appropriate in these situations.

Agenda item 1 – Revenue

1.1 Revenue

- d) The term 'distinct' is used in both the definition of a delivery obligation in Part I and promise in Part II. They look to be used consistently but it is important to ensure that it is clear whether terms are used in the same way in both parts or make clear if a term is used in a different way between the sections.
- e) Paragraph G23.69 regarding the application of the 5-step model appears to duplicate to the guidance in AG23.1. The wording in AG23.1 is clearer and should be used in both places.
- f) With regards to step 4 of the 5-step model it would be better to start the section with the requirements, and then cover when it does not apply rather than the other way around.
- g) The bottom part of the decision tree in Figure G23.1 to determine which Part of Section 23 to use is hard to follow. It may be useful to add an intermediate step for commercial discounts and then consider whether the amount is materially above or below equivalent value.

Agenda item 1 – Revenue

1.2 Requests

- a) Locate the explanatory text for the delivery obligation back into the core text.
- b) Sam and Paul to work offline to clarify how operational approvals in grant arrangements affect the economic substance of a grant.
- c) Review Section 23 to ensure consistency of the use of terms, particularly 'distinct' and 'specified'. Explain the approach in the Basis for Conclusions.
- d) Update G23.69 using the wording in AG23.1.
- e) Update the decision tree in Figure G23.1 to make clear where commercial discounts fit into the assessment of a transaction.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- a) Including a rebuttable presumption for a by nature classification is dependent on how important it is to drive consistency and comparability.
- b) PAG members supported the ability to make a choice on which classification of expenses best meets their needs. One PAG member suggested using a by nature analysis as a default rather than a using the rebuttable presumption.
- c) Do not align with IFRS 18 *Presentation and Disclosure of Financial Statements* requirements to disclose certain line items when a by nature natural classification analysis of expenses is used, and instead see how the IFRS for SMEs Accounting Standard is adjusted for IFRS 18 in the next comprehensive review in a few years.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- d) Agree with retention of the rebuttable presumption. However, if an NPO is required to explain the rationale when using the presumed approach then it isn't really a rebuttable presumption, merely an accounting policy choice. NPOs should only need to explain if they think something else is more useful, or warranted for another reason.
- e) A rebuttable presumption is trying to achieve some uniformity, applying principles in absence of contrary information, while leaving optionality. To require a rationale for using the presumption is not necessary, otherwise, it is an accounting policy choice.
- f) Expenses classification should be disclosed on the face of the Statement of Income and Expenses as opposed to notes to enhance consistency and comparability. There is more emphasis on expenses information if it is placed on the face of the statement.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- g) The optionality proposal included in the exposure draft for the Third edition of the *IFRS for SMEs* Accounting Standard for presentation on the face of the Income Statement or in the notes has been withdrawn by the IASB. The resulting drafting will be the same as current edition of the *IFRS for SMEs* Accounting Standard.
- h) One PAG member supported keeping the face of the Statement of Income and Expenses uncluttered, while another mentioned the importance of machine readability. For AI searches, consistency is likely to result in better information.
- i) Having all of the information in the notes and nothing on the face of the Statement of Income and Expenses is not useful. As a minimum a basic presentation is needed for the Statement of Income and Expenses, which could be supported by additional analysis in the notes.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- j) The treatment of exchange transactions on different terms for a governing body member as opposed to a third party is clear. Additional guidance or examples for donations on different terms for a governing body members as opposed to a third party would be useful.
- k) In order to maintain comparability, it should be clear what is considered a support cost and which costs can be stepped down (allocated) to a programme. Management costs should not be stepped down. A distinction should be drawn between support costs and shared costs. Use of examples could provide clarity.
- l) In defining direct, shared and support costs, it should be clear that shared costs can be allocated (for example in a functional analysis) but support costs cannot be allocated as they would need to be apportioned. Support costs should be a line within functional analysis rather than spread across the programmes in the functional analysis.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- m) Agree that defining different types of costs is a complex issue, with multiple views about the definition of fundraising costs alone. There is a danger of going down arbitrary or individual lines of thought. This is made more complex in terms of how these costs are used in ratios, which can have unintended consequences.
- n) Stakeholders, including funders would like to have clarity around the definition of support costs. This is a key issue. PAG agrees with the principle-based approach in INPAG guidance but acknowledged that a (separate) practice guidance approach like for donor reporting could be taken. This could be a more rules-based guide with input from donors.
- o) INPAG should focus on naming/ defining the different cost “buckets” to standardise terminology. This will leave the possibility for the creation of a practice guide and what ought to go in which bucket later.

Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- p) INPAG should follow the outcomes of the feedback from ED3 on fundraising costs unless there are major reasons not to or new information has come to light. This is a challenging area, for example, fundraising cost principles have been agreed in Australia. However, feedback suggests that the activities captured are not always consistent.
- q) A more principles-based approach to fundraising costs might be more helpful as currently they are drafted very much as a "rule". A rebuttable presumption about the items to be included as fundraising costs could be used, with an NPO explaining if costs have been excluded. More flexibility could be paired with a disclosure that requires an explanation of what is captured in fundraising costs. Flexibility is important because there could be instances where an NPO uses commercial/trading activities in other ways, albeit these instances are rare.



Agenda item 2 – Classification of expenses and fundraising costs

2.1 Classification of expenses and fundraising costs

- r) The disclosure of volunteer benefits goes too far and there may be challenges in applying materiality if there is no way to track and quantify benefits. For example, person A volunteers weekly at the food program at a local community centre, but uses a drop-in program for families offered at the community centre. Such disclosures may not provide information of value.
- s) Marketing materials whose purpose is neither financial nor administrative, because NPOs don't seek to generate funds may exist. For example, religious organisations may be focused on imparting knowledge rather than raising funds. It is important to leave open the opportunity to make disclosures about these kinds of activities as fundraising costs.

Agenda item 2 – Classification of expenses and fundraising costs

2.2 Requests

- a) Retain the rebuttable presumption and further explain the approach in the Basis for Conclusions.
- b) Consider whether minimal analysis on face of the Statement of Income and Expenses would be better than full optionality. Also consider whether there would be a reason to depart from the *IFRS for SMEs* Accounting Standard for NPO-specific reasons.
- c) Further consider the guidance on support costs, acknowledging that this is a feature of the proposals for fundraising costs. FASB to share its guidance on this topic. Note: this may be an issue for future iterations of INPAG, when evolving practice is clearer.
- d) Consider the development of a practice guide for support costs as a practical way forward for NPOs and donors, which can be accommodated without becoming rules based in the final version of INPAG. This will create room for discussion and debate, which could not be accommodated within the standard.
- e) Avoid becoming too detailed on fundraising costs in the final proposals.

Agenda item 3 – Related parties

3.1 Related parties

- a) Paragraph G28.38A is potentially overcomplicated, assuming that the key point is that non-executive members of the governing body are not considered employees for purposes of the employee benefits disclosure. It might be difficult to separate compensation, for example, if the chief executive is also a trustee , as additional remuneration may not be clearly identifiable. This could be simplified by referring to non-executive members only in this paragraph.
- b) Sympathy for those that expressed concerns about requiring entities worldwide to confirm the legality of payments to governing body members. This requirement feels excessive and inconsistent with how the legality of other payments is treated. It could lead to unnecessary additional costs, while the disclosure of payments itself is sufficient for transparency and identifying those that may not be legal in a jurisdiction.

Agenda item 3 – Related parties

3.1 Related parties

- c) Use of the term 'employee' in related parties' remuneration disclosures may be confusing. Consider whether the term 'employee' is necessary for the drafting of these section.
- d) The term arms' length may not be necessary in respect to donations as generally these donations are freely given. It was noted that these provisions were written with grants in mind where conditions might apply.
- e) Consider if there is a better way to provide information about the sustainability of donations without requiring detailed disclosures on donations from governing body members in the normal course of an NPO's operations. Consider disclosure of revenue by source, with related parties as a required item, and/or disclosure about economic dependence on a person or organisation, if this is not already required.

Agenda item 3 – Related parties

3.1 Related parties

- f) The additional disclosures alongside other disclosures required by INPAG, may lead to disclosure overload. It is important to acknowledge that there is a risk that important information is going to be obscured.
- g) In the Australian NPO Tier 1 to 2 standards, it refers to donations under normal conditions and does not require these transactions to be disclosed. For Tier 3 entities if there is no evidence that the donation would influence the entity's decisions or resource use, disclosure is not required. The term 'normal terms' could be used instead of arms' length. (AASB wording to be shared).
- h) It is important to cover related parties including arms' length transactions and relationships with government entities because they are important elements of accountability. The amendments are supported and any easing of the requirements/guidance should not be too generous.

Agenda item 3 – Related parties

3.2 Requests

- a) Revise the wording relating to remuneration disclosures taking a principles-based approach to simplify guidance for situations where a governing body member also has an executive role.
- b) Explain in the Basis for Conclusions the principles-based approach to disclosures related to employees, including those who also serve as governing body members and those who are only governing body members.

Agenda item 4 – Materiality

4.1 Materiality

- a) The ability to request additional information in and of itself doesn't not mean an entity is not a primary user.
- b) The last sentence in IG2.9 should be made more prominent? It is a key point, but feels buried.
- c) References to qualitative factors in IG2.15 should be to changed to relevant qualitative factors.
- d) Amend the drafting of IG2.27 so that it cannot be misinterpreted to mean that you need to provide all disclosures and emphasize materiality concept.
- e) The burden of reporting is a major concern for many NPOs, and materiality is key to the level of effort they will have to apply. Dialogue with donors and constituents will play a big role in better understanding what material information actually is for them. It would be useful to highlight how the project could be beneficial here before adding or removing guidance.

Agenda item 4 – Materiality

4.2 Requests

- a) Update the Basis for Conclusions to reflect the need for dialogue in assessing user needs about materiality.

Agenda item 5 – Liability and equity

5.1 Liability and equity

- a) Entities can use their own terms if more appropriate, but a generic term is needed for use within INPAG. It may be useful to restate that NPOs can use own terms
- b) Organisations can use any terminology they want on their financial statements as standards don't dictate these and the need for a term is for the purposes of the wording in the standard. Do not support a change of term but make clear that terminology in financial statements can be altered.
- c) There can be confusion about the distinction between the terms income, liabilities, equity and net assets. Clarification is necessary within the guidance on where it is appropriate to use each. For example, a donation of an investment portfolio that is subject to conditions (ie NPOs cannot dispose of the investments but can use the income to fund its activities) can be recognised as income, which distorts the surplus and deficit. It is not clear whether it is acceptable for this to be recognised in income or net assets as it is effectively equity.

Agenda item 5 – Liability and equity

5.1 Liability and equity

- d) It is important to explain how net assets should be used in accounting beyond the presentation in the financial statement. There should be greater clarity about the transactions that could directly affect net assets. Educational material could be a solution to applying these aspects of INPAG.
- e) Continue to use the term equity claims, especially if stakeholders can change the term to meet their own needs. There is a lot in Section 22 that may not be applicable to NPOs, and this should be considered for review in the next iteration of INPAG.

Agenda item 5 – Liabilities and equity

5.2 Requests

- a) Update the Basis for Conclusions to reinforce the ability of NPOs to use their own terms in their financial statements as long as this is not misleading.
- b) Section 2 needs to sign post how net assets is impacted by what is recognised through revenue and there is appropriate linkage on this, noting that endowment funds has not been addressed in the first edition of INPAG. Consider the use of an example to help the signposting, without pre-empting future work to be carried out on endowments.
- c) Discuss with Daniel the treatment of transactions that can be posted directly to net assets to assess the extent to which this can be accommodated in the first edition of INPAG.

Agenda item 6 – Fair value and asset related topics

6.1 Fair value and asset related topics

- a) Link the principal or most advantageous market with the realistically accessible market by referring to what is financially feasible and legally permissible. This will be sufficient until Section 12 is fully reviewed. Entities should not disregard the highest price available totally when considering fair value. Also, the weighting of unobservable inputs, because of their magnitude may push the fair value measurement into level 3.
- b) The sentence in AG12.9 is a bit convoluted and could be reworded to say "The deemed cost of a donated asset at initial recognition is the fair value of that asset"
- c) AG12.11 which refers to assets that have restrictions is confusing. There is a question about if there is a restriction, can an asset be freely disposed of.

Agenda item 6 – Fair value and asset related topics

6.1 Fair value and asset related topics

- d) The drafting of AG12.11 begs the question about whether restrictions can be ignored, what are the restrictions and which of them should be considered. Agree the that guidance should be kept to that in the *IFRS for SMEs* Accounting Standard until the Section can be reviewed in detail, and it may therefore be better to remove this paragraph. Otherwise, it might be useful to draw a distinction with external and self-imposed restrictions.
- e) It is important for organisations to be able to understand their general reserves, and therefore support the additional proposed disclosure on property, plant and equipment (PPE) that has restrictions. Preferably this disclosure should be in the fund accounting section rather than PPE section as it is about reserves and the ability to use reserves for different purposes.
- f) Data availability for fair value measurement will be determined by the circumstances of the NPO and there is not much that can be done by a (international) standard setter. This can be supported through education and training materials.

Agenda item 6 – Fair value and asset related topics

6.2 Requests

- a) Remove AG12.11 to remove potential confusion unless alternative wording would be more helpful. Minimise any alternative wording and share with Jenny and Freddie
- b) Keep the property, plant and equipment disclosures in section 17 and a cross refer to the fund accounting disclosures.

Acronyms

Acronym	Full name	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance
IFRS	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally
INPAG	International Non-profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
NPO	Non-profit Organisation	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
SMC	Specific matter for comment	A question raised in a consultation document, including the Exposure Drafts on which specific feedback is sought