



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG07 – 01 – Online

25 March 2025

## Section 2 Concepts and Pervasive Principles – Final Guidance

Summary	This paper provides TAG members with the amendments to the final guidance following TAG’s advice at its May 2024, September 2024 and January 2025 meetings for Section 2 <i>Concepts and Pervasive Principles</i> .
Purpose/objective of the paper	This paper presents the approaches to the proposed final amendments to Section 2, its Implementation Guidance and Basis for Conclusions. It seeks TAG’s views on the updates and whether further changes are necessary to finalise the guidance.
Other supporting items	TAGFG01-03, TAGFG03-02, TAGFG04-04, TAGFG05-04 TAGFG05-05
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Actions for this meeting	<b>Advise on:</b> <ul style="list-style-type: none"><li>i. The updates for the plain language amendments included in the Third edition of the IFRS for SMEs Accounting Standard.</li><li>ii. The approach to net assets.</li><li>iii. The additional guidance on the undue cost or effort exemption.</li><li>iv. The updates to the draft final Implementation Guidance on materiality.</li></ul>

# Technical Advisory Group

## Section 2 Concepts and Pervasive Principles - Final Guidance

### 1. Introduction

- 1.1 This paper provides amendments to the draft final guidance for Section 2 *Concepts and Pervasive Principles*, its Implementation Guidance and Basis for Conclusions following TAG's advice at its May 2024, September 2024 and January 2025 meetings.
- 1.2 The draft of the full final guidance for Section 2, the Section 2 Implementation Guidance and the Basis for Conclusions is contained in a separate Annex, which includes all the draft final guidance to be considered at this meeting.

### 2. Background

- 2.1 TAG members provided their advice on Section 2 at their May and September 2024 meetings. At their September 2024 meeting TAG provided advice on the final guidance and this report provides an update based on that advice though some TAG members' requests were addressed in TAGFG04-04 issued to TAG Members at their December 2024 meeting.
- 2.2 The final guidance is being re-presented to TAG members because the previous version (and the original text in Exposure Draft 2) was based on the Exposure Draft of the *IFRS for SMEs Accounting Standard*.
- 2.3 The published edition of the third edition of the *IFRS for SMEs Accounting Standard* has been subject to a plain language review which has meant that although the substance of the guidance in the foundational framework is unchanged there are substantial drafting edits to be reflected in the report which are also pervasive across Section 2 of INPAS from the sections on the *Qualitative characteristics of information in general purpose financial reports* onwards.
- 2.4 At its January 2025 meeting the TAG considered the additional Implementation Guidance on materiality. This was generally supported by TAG and has now been included in the Section 2 Implementation Guidance. There were a small number of requests, and these have been updated in the paper.
- 2.5 This report seeks TAG members' views on the final guidance.

### 3. Update for the amendments included in Third Edition of the IFRS for SMEs Accounting Standard

#### *Background*

- 3.1 The IASB developed the amendments to the *IFRS for SMEs Accounting Standard* by applying the alignment approach. The alignment approach requires the IASB to use the principles of relevance to SMEs, simplicity and faithful representation to determine whether and, if so, how to align the Standard with full IFRS Accounting Standards. Section 2 is aligned with the IASB *Conceptual Framework for Financial Reporting* 2018 edition. Following the outcomes of the consultation the amendments to Section 2 of the *IFRS for SMEs Accounting Standard* are predominantly to simplify the language and provide clarity, including the removal of the passive voice.

#### *Amendments to Section 2 of INPAS*

- 3.2 ED1 version of Section 2 and subsequent drafts of the final guidance were based on the Section 2 in the draft Third edition of the *IFRS for SMEs Accounting Standard* and therefore the Secretariat has updated Section 2 to reflect the final *IFRS for SMEs Accounting Standard*.
- 3.3 The Secretariat has amended paragraphs, predominantly from G2.18 onwards to reflect the revised drafting, except where specific decisions were previously taken for NPO-specific reasons. The revisions have therefore been made consistent with the approach in ED 1 to:
- Use different terminology, referring specifically to NPOs rather than entities more generally.
  - Reflect the changes in terminology for the individual financial statements.
  - Add service potential where there are references to economic benefits.
  - Add other phenomenon where there are references to economic phenomenon.
  - Change financial performance to reflect NPO circumstances, referring to the activities of the NPO or specifically to measures of service potential.
  - Refer to financial reports instead of financial statements consistent with the approach in ED1.

**Question 1:** Do TAG members have any comment on the updates in accordance with the issued third edition of the *IFRS for SMEs Accounting Standard*?

### 4. Amendments following the TAG's advice at the September 2024 and January 2025 meetings

#### *September 2024 meeting*

- 4.1 TAG members were generally supportive of the approach to the amendments to Section 2 at their meeting in September 2024. They made several requests which were addressed in TAGFG04-04 (Drafting changes following TAGFG03). These related to:

- Amendments to the description for those users acting in their capacity as representatives of resource providers and goods and service users, to make the description more concise (see paragraphs G2.6 and G2.9).
  - Redrafting of paragraph G2.11 to allow those users that can request special purpose financial information to also be primary users.
  - Consideration of whether the guidance on branches (where indicators were used to decide whether a branch was a reporting NPO) should be in the core guidance or in the Implementation Guidance (see paragraphs IG2.44 and IG2.45).
- 4.2 The Secretariat has also moved the description of the legislature from paragraph G2.6 to paragraph G2.9 to bring the relevant discussion on elected representatives and public officials together.
- 4.3 TAG members also requested that Section 2 be reviewed to ensure that there is appropriate signposting in the core guidance to additional guidance about the users of general purpose financial reports. Cross-reference is made to IG2.3 in the Implementation Guidance, in the authoritative text (paragraph G2.14).
- 4.4 TAG members also requested that the Secretariat review the proposed text to ensure consistent use of general purpose financial statements and general purpose financial reports. Generally, references to general purpose financial statements or financial statements are limited to those paragraphs which only refer to those the specific reporting needs of the financial statements. General purpose financial reports refer to wider reporting issues including the narrative report. A review has been completed.
- 4.5 TAG members requested that the drafting of the narrative reporting requirements be introduced earlier in the Section as an important feature of general purpose financial reports. The Secretariat has therefore moved paragraph G2.4 (previously paragraph G2.11 in ED1) to the section on the objective, usefulness and limitations of general purpose financial reports.
- 4.6 The Secretariat has also amended paragraph G2.15 which referred to an NPO's financial performance because consistent with the original approach in ED1 this terminology does not reflect the NPO context.

#### *January 2025 Meeting*

- 4.7 TAG members considered the outcomes of ED3 in relation to net assets at its January 2025 meeting. No substantial changes to the overall approach to net assets were requested because of the feedback from ED3. However, TAG members requested that Section 2 signpost how net assets is impacted by certain donations which are recognised through revenue but are subsequently a part of net assets and there is appropriate linkage on this. TAG members requested that it be noted that endowment funds have not been addressed in the first edition of INPAG.

- 4.8 The Secretariat has introduced a new paragraph G2.83 to describe this transaction as a component of net assets and recognise that there might be amounts held in net assets which were originally recognised as income. However, these resources cannot subsequently be disposed of and the income from the disposal used by the NPO. The Secretariat considers that on initial recognition these amounts cannot be recognised directly into that element. The Secretariat has also referred to such donations in the Basis for Conclusions and noted that these donations are often described as endowment funds, but that endowment funds have not been addressed in the first edition of INPAS.
- 4.9 The Secretariat has also augmented Figure 2.2 to include other components of net assets which are not a part of funds to present all of the major components of net assets.

#### *Other Amendments*

- 4.10 TAG members advised that there should be a reconsideration of the term “review” in paragraph IG2.34 relating to the undue cost or effort exemption. The Secretariat has removed references to review as this would introduce specific reporting requirements and aimed for consistency with paragraph G2.40.
- 4.11 The Secretariat has also amended the headings in the Implementation Guidance to convert these to questions so that this is consistent with the general approach.

**Question 2:** Do TAG members have any further views on the Secretariat’s response to its comments following its September 2024 meeting?

**Question 3:** Do TAG members agree to the amendments for certain donations which are recognised through revenue but are subsequently a part of net assets?

## **5. Amendments to the new Implementation Guidance on materiality**

- 5.1 TAG members considered the additional Implementation Guidance on materiality at its January 2025 meeting. The TAG was generally supportive and requested that the Basis for Conclusions reflect the need for dialogue in assessing user needs about materiality. The Secretariat has discussed the addition of separate Implementation Guidance on materiality in Section 2 and emphasised users’ needs in the Basis for Conclusions paragraph BC2.20.
- 5.2 TAG members provided a few detailed comments which have been considered by the Secretariat:
- The last sentence in paragraph IG2.8 should be made more prominent – the Secretariat concurs and has moved this to the beginning of the paragraph.
  - References to qualitative factors in IG2.14 should be changed to relevant qualitative factors. The Secretariat has made the amendment.
  - Amend the drafting of IG2.26 so that it cannot be misinterpreted to mean that a NPO needs to provide all disclosures and to emphasise the materiality



concept. The Secretariat has made some minor augmentations to the drafting to ensure that this is not the case.

**Question 4:** Do TAG members have any further comments on the approach to the materiality Implementation Guidance?

**6. Next steps**

- 6.1 Subject to the comments made by TAG members in response to this paper, the Secretariat intends to treat the drafts shared alongside this paper as final.
- 6.2 TAG members will next see the updated paragraphs in the full draft of the document that is planned to be circulated in April 2025. This draft will be used to collect final feedback ahead of the version that will be put forward for approval on 3 June 2025.

**March 2025**