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Submission via website: https://www.ifr4npo.org/consultation-paper-response/

Dear Sam

International Non-Profit Accounting Guidance Exposure Draft Part 1

As the representatives of over 300,000 professional accountants around the world, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on International Non-Profit Accounting Guidance (INPAG) Exposure Draft Part 1 ("the ED). We make this submission on behalf of our members and in the public interest.

We are strong supporters of the Non-Profit Organisation (NPO) sector and many of our members are involved with the sector in Australia and New Zealand as advisors, auditors, employees and volunteers. In Australia and New Zealand, the term not-for-profit (NFP) is commonly used to refer to organisations that make up the sector but since the ED refers to these organisations as NPOs, we have used the terms interchangeably throughout our submission based on the context.

We commend the IFR4NPO project team and others involved in the project for the development of these proposals that should lead to a helpful, fit-for-purpose international financial reporting solution for NPOs. We believe the proposed requirements will enable NPOs to demonstrate transparency to their stakeholders on their strategic, financial and operational activities, stewardship of resources and overall accountability.

Overall comments

We are pleased to provide overall support for the proposals in the ED. In particular, we agree with the use of the International Financial Reporting Standard for Small and Medium-Sized Enterprises (IFRS for SMEs) as the basis for INPAG. We also agree with departing from IFRS for SMEs where necessary to make INPAG fit-for-purpose for NPOs.

However, we offer several high-level comments concerning the overall approach.

Scope of the pronouncement

We recommend that further consideration be given to the scope of INPAG in finalising the proposals. ED 1 indicates that INPAG will be suitable for NPOs without public accountability (similar to IFRS for SMEs on which INPAG is based), but that NPOs with public accountability may also apply INPAG with some additional disclosures. We appreciate there will be some NPOs that can be clearly identified as having public accountability (e.g., NPOs holding assets in a fiduciary capacity). However, many of the characteristics of public accountability are not applicable for NPOs (e.g., debt or equity instruments traded in a public market). In addition, while IFRS for SMEs is a cost-effective reporting solution for smaller entities in the for-profit sector, the differing nature of the NPO sector for which INPAG is designed needs to be explicitly considered given its intended international application.

The Australian and New Zealand experience indicates that successfully imposing a consistent general purpose financial reporting regime for the NFP sector requires a comprehensive understanding of the information needs of the sector's user groups, as well as the appropriate skills and resources required from preparers of the general purpose financial reports. This understanding should inform the design of the accounting principles and reporting requirements that ensure that the costs of such a framework do not outweigh the benefits. To address the unique needs of the NPO sector, INPAG needs to clearly articulate the assumptions about the intended NPO audience, and the users and preparers of financial reports that underpin the cost/benefit decisions. Such assumptions need to be specific to the NPO sector and will assist regulators to determine how the guidance should be applied in their jurisdictions. This clarity will also contribute to a higher success rate for the adoption of INPAG globally.

It is notable that IFRS for SMEs sets out a clear definition of the class of entity for which that standard is intended, noting that this is essential so that legislative and regulatory authorities, standard-setters, and reporting entities and their auditors are informed of the intended scope of applicability of that standard (paragraph P13). The same rationale should apply to INPAG in developing the scope of its applicability.

Nature of the pronouncement

We believe there is justification for issuing INPAG as a standard, rather than as guidance. Given INPAG sets out accounting "requirements" and supporting Application Guidance, it may be more appropriate to issue the final pronouncement as a standard. It will be up to each jurisdiction whether they choose to apply the pronouncement as a mandated or optional standard within their jurisdiction.

Since INPAG ED 1 is the first of three exposure drafts that will form the final pronouncement, we also recommend that all three exposure drafts be re-exposed as a complete consultation for stakeholders to be able to better understand the linkages between the various sections and provide additional comments, if necessary. Such a fatal flaw review, which need not involve a lengthy consultation period, will further enhance its credibility.

Conclusion

Our detailed responses to the questions raised in the ED are provided in the **Attachment**. However, we note that the questions focus on specific proposals rather than seeking feedback on all aspects of the ED. Therefore, we have also included in our responses to the specific questions, additional comments on matters related to those topics or paragraphs. We request that these additional comments also be considered.

If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com.

Yours sincerely

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Attachment

Specific matters for comment

Question 1: General comments

a) Is the structure of INPAG helpful? If not, how could it be improved? (References GP22-GP24)
b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.

a) We agree that the structure of INPAG as a single standalone document providing comprehensive accounting requirements and Application Guidance is helpful.

b) We set out below other comments relating to the development of INPAG:

- As noted in our cover letter, we believe that INPAG should clearly set out the scope of the entities to which it is targeted. This will allow regulators to determine how these requirements should fit into national reporting frameworks and will assist in better uptake of INPAG globally.

- We are confused by the comment in paragraph GP23 that "as INPAG is being developed in stages, not all sections of INPAG have been updated to take of account of NPO-specific issues". Given INPAG is aimed at NPOs, it is not clear why some sections of INPAG have not been updated to take account of NPO-specific issues and yet, as noted in GP23 INPAG has been updated "for changes to terminology". An appropriate explanation—that is, whether it is because such sections are to be updated during the development of Exposure Drafts 2 and 3, or they are already considered suitable in addressing NPO-specific issues—should be reflected in the commentary.

- Paragraph GP24 states that the Application Guidance that is part of INPAG and provides additional support, is provided for both preparers and users of general purpose financial reports (GPFR). Generally, users of financial reports are not expected to refer to underlying accounting requirements or guidance since the primary purpose of such guidance is to support preparers. As such, it needs to be written at a level that reflects their accounting expertise. However, we agree that there is a need to assist users to better understand financial reports prepared using INPAG and so we recommend that separate guidance is developed for users on how to read and understand financial reports prepared in accordance with INPAG.

Question 2: Description of NPOs and users of INPAG

a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why? (References G1.2-G1.5)
b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

a) We set out below our comments regarding the proposed description of the broad characteristics of NPOs:

- We suggest that the wording of paragraph G1.2 outlining the three broad characteristics of an NPO provides a clearer link to paragraphs G1.3–G1.5, which include a further description of those broad characteristics.

- We broadly agree with the term 'providing a benefit to the public' as a key characteristic of an NPO. However, we believe that paragraph G1.3 still has not clearly addressed the scope of the term "public". Clarity of this term is essential to being able to distinguish between public benefits and the private benefits, which paragraph G1.3 notes can only be incidental to the primary "objective of providing a benefit to the public." This is because there are a number of NPOs that could be considered as providing "private" benefits, as described.

  For example, a tennis club might only be open to members and hence the services provided by the tennis club could be considered "private benefits" provided to those members. Whilst we note that paragraph IG 1.7 and Example 3 in the implementation guidance considers a similar scenario and includes such benefits as "public benefits", we suggest further consideration be given to the description in the body of INPAG. Otherwise, a number of NPOs could be precluded from using INPAG (including Application Guidance) as they may be considered as providing private benefits.

  To address the ambiguity that may arise in applying the proposed description, we suggest the development of an overarching definition of an NPO that is supported by the description. This definition could include the characteristics "providing a benefit to the public" and "direct surpluses for the benefit of the public". Such a definition could also restrict the ability of NPOs to make a financial return to those with equity claims.

- Paragraph G1.2 excludes the use of INPAG by government or public sector entities that should prepare GPFR under public sector financial reporting standards. In Australia, the majority of public sector entities are considered to be NFPs for financial reporting purposes. Likewise, in New Zealand the majority of public sector entities are considered to be public benefit entities (PBEs). It is not clear why INPAG should be restricted for use only by private-sector NPOs. We suggest that the scope of INPAG should be aimed at NPOs, and it should be left to jurisdictions that adopt the guidance as to whether it can be used also for their public sector entities. In particular, this approach may be useful for jurisdictions in which no public sector specific accounting standards have been adopted.

- In respect of paragraph G1.4, please refer to our response to Question 3.

b) As noted in our cover letter and in our response to Question 1 we do not believe that the ED provides clear guidance on the types of entity that are expected to benefit from INPAG. The IFRS for SMEs concept of not having "public accountability" is not directly applicable to the NPO sector. Without a clear understanding of the size and nature and accounting capabilities of the preparer population this guidance is designed for, and a clear understanding of the user groups it is targeting, cost/benefit decisions on the actual requirements will be difficult to make or clearly justify to stakeholders. This will have directly impact the application of narrative and performance reporting and the accounting policies which will be fundamental to INPAG Exposure Draft 2.

   We also note that the primary users of NPO financial statements include those fulfilling oversight functions, which is a significant departure from the IFRS for SMEs that provides the basis for INPAG. Given the importance of identifying primary users, we recommend that a rationale be provided as to why those fulfilling oversight functions are considered primary users. In our view, this appears counter-intuitive, because those with oversight functions are generally not expected to rely on general purpose financial reports. They usually have the ability or authority to require the preparation of financial reports that provide the information they need for their specific purposes.

Question 3: Concepts and pervasive principles

a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why? (References G2.3-G2.12)
b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why? (References G2.13-G2.32, AG2.1-AG2.3)
c) Do you agree with the components of net assets? If not, why not? (References G2.73, Figure 2.2)
d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have? (References G2.141, AG2.6-AG2.9)
e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why? (References G2.74-G2.75, AG2.4-AG2.5)
f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why? (References G2.142, AG2.8-AG2.9)
g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not? (References G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122)
h) Do you agree that the provisions for 'undue cost and effort' used in the IFRS for SMEs Accounting Standard should be retained? If not, why not? (References G2.33-G2.36)
i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful? (References G2.43-G2.49, AG2.10-AG2.24. 21).

We broadly agree with the concepts and pervasive principles set out in Section 2 of the ED, subject to the following additional comments in respect of this section:

- **Identification of users** – On page 8 of the ED, it is noted that internal stakeholders could include members. Whilst this may be the case for smaller NPOs, it may not be the case for larger NPOs. Members in larger NPOs may need to be considered external stakeholders who rely on GPFR as primary users. The importance of being clear about relevant users is critical to ensuring that the:
  - reporting requirements are developed with cost/benefit considerations in mind,
  - NPO community has an appropriate understanding about what can and cannot be expected from a GPFR, and
  - competencies required of those responsible for the preparation of GPFR are clear.

- **Presentation of equity issues** – Paragraph AG2.7 states that the provision of funding by an external party that provides governance rights but does not establish a financial interest in the net assets of the NPO, is not a contribution from holders of equity claims and does not lead to the recognition of equity. We suggest that consideration be given as to how such funding is reflected in the financial statements if it is not part of equity, including any relevant disclosures. Implications for the exercise of control (Section 9) may also need to be considered in such instances.

- **Funds with and without restrictions** – We recommend that consideration be given to expanding the AG paragraphs to include clarification on some of the practical challenges associated with distinguishing between funds with restrictions and those without restrictions.

- **Mixed groups** – Paragraph G2.45 considers that a reporting NPO could be a parent that controls another entity that may or may not be an NPO. We suggest that guidance be developed and included in the Application Guidance to Section 2 on scenarios where a reporting NPO is a parent that controls for-profit entities. We also note that the definition of "reporting NPO" in the Glossary of Terms does not envisage a group that includes for-profits. We suggest this is amended to reflect such mixed groups.

- **Obligations** – The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities issued by the International Public Sector Accounting Standards Board (IPSASB) distinguishes legally binding obligations from non-legally binding obligations, in paragraphs 5.18–5.26. Although paragraph G2.61 distinguishes legal obligations from non-legal (constructive) obligations, given the prevalence of both types of obligations in the NPO sector, we believe a detailed analysis similar to that in the IPSASB conceptual framework is necessary in Section 2 of INPAG.

- **Distributions to holders of equity claims** – There are multiple references to "distributions to holders of equity claims" in the ED, including in paragraph G2.76(b). These references appear to conflict with the description of a NPO set out in paragraph G1.4, which states that "organisations that do have a primary objective of distributing surpluses for private benefit to groups and individuals, such as investors and holders of **equity claims,** are likely to be for-profit organisations". Whilst we agree with the description set out in G1.4, we suggest revisiting the references to "distributions to holders of equity claims." Such references need to consistently make it clear that an NPO is not able to have a primary objective of distributing surpluses to holders of equity claims while still addressing circumstances where, for example, a subsidiary NPO may make a distribution to a parent NPO, provided these distributions are ultimately utilised for public benefit. We acknowledge that Example 2 in the implementation guidance considers a scenario where some distribution to equity holders is made, including a discussion as to whether this is a primary or secondary objective of the entity. We do not believe this example is, by itself, sufficient to address our concern. We recommend that further modifications be made to the main body of INPAG to clarify this matter.

Question 4: Principles to enable comparability of financial statements

a) **Do you agree with the proposed changes to terminology from the IFRS for SMEs Accounting Standard? If not, what would you propose and why? (References Sections 3-10)**
b) **Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose and why? (References G3.14, G3.19, AG3.9-AG3.11, BC5.11)**
c) **Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns? (References G3.3-G3.7, AG3.3-AG3.5)**

a) We agree with the proposed changes to terminology from the IFRS for SMEs as stated in Sections 3-10 and agree that those changes will ensure NPOs can better understand and apply these requirements, subject to our response to Question 1 in respect of paragraph GP23.

b) We agree that comparatives should be shown on the face of the primary statements, including the proposed comparatives for the Statement of Income and Expenses, given the important role comparatives play in understanding financial statements.

c) Subject to our responses to Questions 1-3 above, we are not aware of any unintended consequences arising from the proposals for expressing compliance with INPAG.

Question 5: Scope and presentation of the Statement of Financial Position

a) **Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not? (References G4.5-G4.9, AG4.4)**
b) **Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split? (References G4.13-G4.14, AG4.5- AG4.7)**

a) We agree that all asset and liability balances should be split between current and non-current amounts. As stated in paragraph G4.9 there is a rebuttable presumption that an NPO's operating cycle is twelve months. Where the presumption is rebutted, the operating cycle of an NPO is the time taken to convert inputs or resources into outputs. In our view, more practical guidance and examples are needed for a situation where the presumption is rebutted. It could be challenging to determine the operating cycle of an NPO (the time taken to convert inputs or resources into outputs), particularly when multiple projects/programmes are in operation with significantly different conversion cycles or time frames.

   We also recommend that the INPAG's requirements in this area take account of the IASB's 2020 and 2022 amendments to IAS 1 *Presentation of Financial Statements*, which provide much needed clarification of the current/non-current liability classifications requirements that impact both for-profits and NPOs.

b) We agree that not all categories of assets and liabilities should be split between those with, and without, restrictions. However, we are unclear about the intent of Question 5(b) as paragraph G4.13 allows entities to choose whether they separately present items with and without restrictions on the face of the Statement of Financial Position, whilst paragraph G4.14 addresses the disclosure of net assets, showing separately material individual funds and reserves. Neither paragraph appears to explain why not all categories of asset and liability balances should be split between those with, and without, restrictions. We read the question as suggesting that, where an NPO chooses the columnar approach to separately classify assets and liabilities into those with, and without, restrictions, a choice could be made to present a particular category of asset or liability within the unrestricted or restricted column. However, we read paragraph G4.13 as proposing an NPO can opt to either present all assets and liabilities in a single column or use two columns to split assets and liabilities between those with, and without, restrictions. We suggest providing clarity on this matter.

   Based on our understanding of paragraph G4.13 (as discussed in the above paragraph), we suggest reconsidering the option provided in paragraph G4.13 to present separate columns in the Statement of Financial Position in respect of funds with restrictions and funds without restrictions. Whilst this is only an option, this presentation is complex and there may be inconsistencies arising in presentation, particularly where judgement is exercised in determining the allocation of certain assets or liabilities to the separate columns. There will also be challenges when an asset (e.g., the premises used as the head office) is used for both restricted and unrestricted activities.

<u>Other issues</u>

We are unclear about the statement made in paragraph AG4.8 that "equity may include debt or other instruments", as debt would normally have to be included as part of liabilities. We suggest that the wording of this paragraph be reconsidered.

In addition, paragraph 4.2 s), t) and u) set out the line items relevant to the bottom half of the Statement of Financial Position. Although paragraphs AG4.5-AG4.11 provide Application Guidance on these line items, they do not specifically address how a retained surplus or deficit should be allocated. We suggest that this be addressed in the Application Guidance.

Question 6: Scope and presentation of the Statement of Income and Expenses

a) **Do you agree with the name of the primary statement being 'Statement of Income and Expenses'? If not, why not? (References BC5.1-BC5.5)**
b) **Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not? (References G5.5, BC5.6)**
c) **Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why? (References G5.3, AG5.4-AG5.6, BC5.9-BC5.12)**
d) **Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why? (References Implementation Guidance)**

a) We agree with the name of the primary statement being 'Statement of Income and Expenses'. We note that paragraph G5.7 requires a line item for "revenue" in the Statement of Income and Expenses whilst the illustrative financial statements provided in Annex 1 of the ED refers to this line item as "income". We suggest that consistent terminology be sued throughout to ensure no confusion arises on this matter.

b) We also agree that the terms "surplus" and "deficit" should be used instead of "profit" and "loss". We see these departures from for-profit reporting terminology as appropriate and fit-for-purpose for NPO reporting purposes.

c) We do not agree with the proposal to split each line of revenue and expenses between those with, and those without, restrictions on the face of the Statement of Income and Expenses. We appreciate that the separate presentation or disclosure of restricted and unrestricted funds is an important aspect of accountability and in meeting users' needs. However, we are also concerned about how it impacts the presentation of comparatives, and about the complexity of the primary financial statement where comparatives are mandated alongside these fund accounting requirements. We believe that users' needs can be met in this regard by way of separate presentation on the face of the Statement of Changes in Net Assets supplemented by disclosures in the notes to the financial statements. Given the challenges associated with splitting income/expenses common to both restricted funds and non-restricted funds (see our response to Question 5), we suggest Application Guidance be developed and provided to address the inherent classification challenges.

   If a decision is made however to proceed with the proposal to split revenue and expenses between those with, and without, restrictions on the face of the Statement of Income and Expenses, we suggest this is provided as an option, rather than a requirement. Additional Guidance may also be appropriate if this alternative is pursued.

d) We agree that NPOs should be able to choose whether to present either income items or expense items first in arriving at a surplus or deficit. Such a presentation choice will allow NPOs to "tell their story", giving prominence to what matters most to them in delivering against their stated objectives.

Question 7: Scope and presentation of the Statement of Changes in Net Assets

a) **Do you agree with the proposal that there is no Other Comprehensive Income (OCI), and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not? (References G6.2, BC5.13-BC5.16, BC6.1-BC6.5)**
b) **Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why? (References G6.4)**

a) We agree with the proposal for no separate section or statement for Other Comprehensive Income (OCI), with the Statement of Changes in Net Assets expanded to accommodate items normally presented through OCI.

b) We agree with the proposal to split funds between those with, and those without ,restrictions on the face of the Statement of Changes in Net Assets as it gives useful information to users of the financial report (also see our response to Question 6(c) above).

Question 8: Scope and presentation of the Statement of Cash Flows

a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why? (References G7.4a)
b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why? (References G7.5b)
c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not? (References G7.7-G7.9)

a) We agree with the separate presentation of cash donations and grants on the face of the Statement of Cash Flows.

b) We agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities.

c) We agree that both the direct method and indirect methods for the Statement of Cash Flows should be permitted.

<u>Other issues</u>

Other than one paragraph (AG7.1) on the indirect method, no further Application Guidance has been developed and provided in respect of the Statement of Cash Flows. We suggest further Application Guidance be developed and provided, including NPO specific matters such as:

- Cash payments in the form of grants and donations
- The classification of grants or donations with restrictions that relate to the purchase or creation of property, plant and equipment (see also our comments above)
- Donated goods and volunteer services, both received and provided, including lease arrangements at below market rates.

Question 9: Principles underpinning the notes to the financial statements

a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?

a) We agree that there are no NPO specific considerations that need addressing. However, we believe the principles underpinning the notes should disclose the NPO's mission and complement the primary financial statements by providing information that supports and explains the achievement of its objectives and activities.

Question 10: Approach to consolidated and separate financial statements

a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why? (References AG9.1-AG9.14)
b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why? (References G9.17)
c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why? (References G9.21-G9.22, AG9.17-AG9.19)
d) Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why? (References G9.7, G9.24)

a) As part of establishing control, a NPO also considers "variable benefits to the public and service beneficiaries from its involvement with the other entity". Whilst some Application Guidance is in paragraph AG9.9 on how variable benefits to the public can be established, we suggest additional examples on these common scenarios would be beneficial to report preparers in establishing the existence of control.

b) We agree that a rebuttable presumption relating to control should be retained as. Also, we believe the reference should be to paragraph G9.18 and not paragraph G9.17.

c) In our view the Application Guidance is sufficient in applying the fundamental characteristics of faithful representation and relevance to consolidation.

d) We agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment' as these alternative terms better reflect the nature of the entities targeted by INPAG.

<u>Other issues</u>

Business combinations under common control (BCUCC) (e.g., mergers within the group) are a common occurrence in the NPO sector. In addition to developing accounting requirements and Application Guidance on BCUCC, we believe consideration should be given to developing and including accounting requirements and Application Guidance on the ongoing consolidation requirements for BCUCC in Section 9.

In addition, we have identified two typographical issues that need addressing as follows:

- Paragraph G9.17: the third sentence includes an unnecessary "a"
- Paragraph G9.35: the second sentence should refer to "non-controlling interests".

Question 11: Approach to accounting policies, construction of estimates and accounting for errors

a) Do you agree with the updates to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?

a) We agree with the proposals in Section 10 and have not identified additional NPO specific issues that need to be addressed in this Section.

Question 12: Scope and content of narrative reporting

a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why? (References G35.3-G35.7)
b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why? (References G35.8-G35.19, G35.30, AG35.2-AG35.13)
c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why? (References G35.7)
d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?

a) We agree with the principles proposed to underpin narrative reporting. However, as noted in our cover letter and in our response to Question 1, it is critical to ensure there is clarity around the scope of INPAG (i.e., the NPO population it is intended for) in further developing these principles. We have observed that smaller NPOs can encounter challenges in reporting service performance information and therefore a “one size fits all” approach to reporting service performance information may not be effective.

b) We agree with the scope of the minimum mandatory requirement proposed in relation to the narrative reporting. We offer the following additional suggestions in respect of the proposed minimum mandatory requirements:

- A majority of the information proposed in paragraph G35.10 could be considered “standing information” that does not change substantially year on year. If there are no material changes in such information, we suggest including a reference to the location where such information is presented, rather than requiring that extensive detail be repeated in the financial report ever year. However, it is important to ensure that enough of this information remains in the financial statements to provide the necessary context about the NPO’s activities. CA ANZ’s publication; Enhancing not -for -profit and charity reporting includes, under the heading corporate information on page 64, an example of the information Australian NPOs are required by legislation to provide about themselves in their financial statements.

- We believe the NPO sector plays a vital role in terms of promoting environmental and social protection endeavours. In that respect disclosing a minimum level of environmental, social and governance (ESG) information, including climate-related disclosures and/or broader sustainability reporting disclosures, is crucial. Greenhouse gas (GHG) emissions and global warming are critical global issues. Therefore, we recommend introducing some optional ESG/climate-related disclosures in INPAG.

- We recommend that service performance information should include additional information in relation to funds with restrictions. In particular, such information should explain how the NPO has undertaken its activities in compliance with the specified restrictions. Such information will complement the financial information provided on funds with restrictions in the financial statements.

- Some performance objectives, and the progress made in respect of those objectives, can straddle multiple reporting periods. Application Guidance on how to disclose service performance information in respect of such objectives and progress will be helpful.

- Identifying user needs is important to developing suitable criteria for reporting service performance information. To assist with this, we refer to CPA Australia's research report; Annual reports of Australian Not-for-Profit Organisations, which includes findings related to the reporting of service performance information.

c) We agree with the proposals to allow sensitive information to be excluded from narrative reports.

d) We agree that a two-year transition period for narrative reporting should be permitted to assist in overcoming any implementation challenges. In addition, we also recommend education material is developed and provided to help preparers better understand and implement the requirements.

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