
Brasília, 5 April 2023

Chartered Institute of Public Finance and Accountancy (CIPFA)

**77 Mansell Street
London E1 8AN
United Kingdom**

Dear INPAG Secretariat,

The “Group of Latin American Standard Setters”¹ (GLASS) appreciates the opportunity to comment on the Exposure Draft of Part 1 of the International Non-Profit Accounting Guidance (INPAG), the ED.

This response summarizes the points of view of the members of the different countries that comprise GLASS, pursuant to the following due process.

Due process

The discussions regarding this ED were held within a specified Technical Working Group (TWG) created in January 2022. All country-members had the opportunity to designate at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls, the TWG developed a final document based on the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

GLASS agrees with the proposed Guide; however, the inclusion of terms such as “equity”, “surplus” and “deficit” is uncommon for this type of entity. We understand that this is a matter of terminology and translation, but in Latin America there is a significant number of Non-Profit Organizations (NPOs) that can misuse these terms and present information that does not reflect the reality of the organization. We recommend that in a prospective translation that Latin America be consulted for the most used terms. In our response to Question 3d), *Concepts and pervasive principles*, and Question 6b), *Scope and presentation of the Statement of Income and Expenses*, some alternative terms are detailed.

Regarding the two-year transition period for narrative reporting, GLASS agrees that a two-year transition period should be allowed, but we consider that a clarification should be included that early use of a one-year period should be allowed, since we believe that within this reporting NPOs would

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and ISSB. Therefore, GLASS aims to have a single regional voice before the IASB and ISSB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Chairman), Chile, Colombia (Vice Chairman), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru, Uruguay (Board) and Venezuela (Board).



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have to include information related to sustainability, for which in the case of other types of entities standards will soon be approved for their application.

On the other hand, we consider the importance of keeping in mind the users of the information provided by NPOs, and of maintaining simplification to achieve implementation and dissemination of the Guide.

Specific Comments

Attached you will find our responses to the specific questions included in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

A handwritten signature in black ink, appearing to read "José Luiz Ribeiro de Carvalho".

José Luiz Ribeiro de Carvalho
Chairman

Group of Latin American Accounting Standard Setters (GLASS)

Annex

Responses to the specific questions included in the ED

Question 1: General comments

- a) Is the structure of INPAG helpful? If not, how could it be improved?

We agree that the structure is useful.

Regarding the content, we note that some key guidance aspects are left to the application guides, which makes it difficult to understand the text.

- 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.

We believe that the importance of applying professional judgment should be further explored for the application of the Guide in different jurisdictions.

It would be important for the Guide to include supplements that characterize the organization beyond what is indicated by its own jurisdiction.

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?

We believe it is necessary to expand the Guide on the concepts of "public benefit" and "private benefit".

The description "providing a benefit to the public" could make it difficult to conclude whether an entity meets the definition of an NPO (and is eligible to apply the Guide), since something that one group in society might perceive as a benefit, another might not. Therefore, we consider that it would be better to eliminate this characteristic from the definition (the key item being the fact that the entity does not distribute profits).

Another case is that in some types of entities, such as cooperatives and associations, the only beneficiaries of the activity carried out by the organization are its associates. In these cases, this may not be considered a benefit to the public.

We recommend including a paragraph that considers the use of the local jurisdiction (legal framework) as one of the elements to determine if the entity meets the definition, for the aforementioned concepts.



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- 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?

The text mentions that entities such as cooperatives, mutual benefit organizations and professional associations could meet the definition of an NPO; however, we consider it necessary to expand on this, since it leads to confusion when it is related to private and public benefits (see our comment on the previous question). For example, the cooperative model seeks that its associates improve their socioeconomic conditions and tends to present surplus distributions among its quota holders. From the example described above, we would argue that the surplus should not be considered a public benefit, because the quota holders are its target audience.

The same happens with worker cooperatives, where the socioeconomic well-being of its members is sought; this condition of vulnerability of the associates should be reviewed to determine if it converts a private benefit into a public one.

The same happens with some financial funds for workers that have a spirit of solidarity, but whose purpose is the benefit of their associates. According to the spirit of the entity, it is not clear if the financial returns translate into public benefits, taking into account that they may pay returns similar to those of the market.

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?

We agree with what the Guide indicates.

- b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?

We suggest a change in the format with which the headings and subheadings of the Guide are presented, so that the reader can have a better understanding.

For example, in section G2, under “Qualitative characteristics of information in general purpose financial reports”, “Qualitative characteristics of useful financial and non-financial information”, “Fundamental qualitative characteristics”, “Relevance” and “Materiality,” it is not possible to identify if they are headings or subheadings.

*It was previously mentioned that the Guide would apply a **special accrual basis** instead of the traditional accrual basis. If this initiative persists, it is important to add this definition in the concepts.*

- c) Do you agree with the components of net assets? If not, why not?

We agree with the above.

- 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?

We agree with the inclusion of equity as an element. However, in the NPOs in Latin America there is little use that would be given to this classification.

Some participants presented some suggestions, such as: calling it Shares of Net Assets; social equity; social capital or net assets. These are equivalent terms used in our region when translating to Spanish but can be also useful in other contexts or languages.

- e) Do you agree with the categorization of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?

We agree with the above.

- 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?

We agree with the above.

- g)** Do you agree that 'service potential' should be introduced into Section 2? If not, why not?

We agree with the above.

- 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?

We agree with the above.

- 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?

We agree with the above.

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?

We agree, considering the user and simplification to achieve implementation and dissemination of the framework under study; there must be an adequate presentation and disclosure because there are entities that carry out mixed activities (for profit and not for profit).

- 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?

We agree with the comparability issues.

- c)** Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?

We consider that, like any implementation, there is an adaptation process for users and preparers of the information; however, limited to our analysis as of the review date, no unintended consequences were identified.

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?

Yes, we agree.

- 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?

Yes, we agree.

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?

We agree. However, in our region the statement is most commonly referred to as a Statement of Activities.

- b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?

We agree.

- 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?

We agree.

However, some constituents expressed concern that the presentation of six columns could create confusion.

Some constituents recommend looking for disclosure alternatives such as footnotes, explanatory notes and supplementary information to inform about the funds that are restricted.

- 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?

We agree.

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?

We agree.

- 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?

We agree. The only concern that arose was with the presentation of the accumulated history of equity holders, mainly in the presentation of items of other comprehensive income, which could have distribution restrictions (e.g., surplus due to revaluation).

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?

We agree; however, the use of the direct method would have limited application.

- 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?

We agree.

In addition, it was commented that it is important to add the words “its own” before “property, plant and equipment”, to avoid unnecessary misinterpretations.

- c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?

We agree; however, we believe that the use of the direct method should be prioritized to provide greater clarity in obtaining cash resources to users of financial information, because it is key information for NPOs. The indirect method would only be used when the cost of preparing the direct method would be excessive.

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?

We agree.

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?

We agree with the incorporation of additional guidance that can further clarify the consolidation procedure of NPOs over which control is obtained and which have not issued equity instruments that validate said control.

- 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?

The question is referenced to paragraph G9.17, with which we agree.

However, the question remains as to whether the question should refer to the rebuttable presumption regarding control established in paragraph G9.18.

Without going into the substance of paragraph G9.18, it is noted that this paragraph refers to the fact that the control elements are included in paragraph G9.5, when they are actually contained in paragraphs G9.8 and G9.9.

It would be important to correct the corresponding references.

- 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?

In accordance with the proposed wording that when making a judgment as to whether a controlled entity should be excluded from consolidation, an NPO must take into account the effect on financial reporting for users of its financial statements. Judgments about excluding an entity from consolidation should not be based on expediency and should be supported by evidence supporting management's judgment.

We recommend that the Guide include situations in which management would decide to consolidate.

- 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?

We agree.

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?

We agree.

Question 12: Scope and content of narrative reporting References

- a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?

We agree.

- 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?

We agree.

- 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?



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We agree.

- 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?

In regard to the transition period, we agree that it be two years, but we consider that a clarification should be included that early use of one year would be allowed.