**International Non-profit Accounting Guidance (INPAG)**

**Exposure Draft 1 Response template**

Exposure Draft 1 can be found here: [www.ifr4npo.org/ed1](http://www.ifr4npo.org/ed1). Please use this form to record your responses to the Specific Matters for Comment.

Comments are most helpful if they:

1. Address the question asked;
2. Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
3. Propose alternatives for consideration, where responses are not in agreement with the proposal made;
4. Specify the INPAG paragraphs to which any comments relate; and
5. 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 12 question areas. You do not need to answer all questions and can choose to answer as many or as few as you wish.

Responses must be received by **31 March 2023 and must be in English**.

Please contact info@ifr4npo.org if you have queries.

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

This document has been designed purely to enable feedback to Exposure Draft 1.  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

**General Comments:**

**Comments:**

1) Overall, the document is well prepared and (considering the traditional lack of accounting guidance for Non-Profit Organisations- NPOs-) it is a big step in the right direction for enhancing transparency, accountability and decision making, without overcomplicating the adoption of these standards. Nevertheless, clearly there is an important trade-off between simplification and missing some elements that could be relevant for the purposes of the INPAG. Thus, I believe some additional guidance in a few areas a could help to enhance the impact of these guidance.

2) There is a concern regarding the proposed framework is the fact that there are already several different accounting and financial reporting frameworks that are readily available, including IFRS, IFRS for SME, cash and accrual basis IPSAS. According to the Exposure Draft (ED) in question, three out of four mentioned frameworks were actually used for development of the proposed International Non-Profit Accounting Guidance (INPAG).

So, the following questions are raised:

1. Do we need another set of accounting/reporting standards that, in turn, will need to be further developed, periodically revised, and kept updated?

2. Is it feasible for those Non-profit Organizations (NPOs) that are in need of using generally accepted accounting principles to adopt one of the already existing frameworks?

Taking as a reference point one of the figures (available on page 9) of the ED, it could make more sense for those NPOs, using cash based accounting, to take as a starting point cash basis IPSAS; while those NPO, that are not required to use the full IFRS or equivalent framework, could chose either between IFRS for SME or accrual basis IPSAS. Using already existing accounting framework by NPO would also promote further consistency and comparability between accounting practices and financial reports worldwide, while avoiding spending additional efforts and resources on a new initiative.

In case of existence of any particularconceptual or practical discrepancies between NPOs’ needs in terms of accounting and financial reporting, IFR4NPO Donor Reference Group could conduct series of consultations with IASB and IPSASB to find the best way of addressing these particular issues in the existing frameworks.

3) I find the Non-Profit Accounting Guidance, Exposure Draft 1 very comprehensive and well-articulated.

**Particular Comments:**

1. **1. Which NPOs are expected to use INPAG?**

**Do you think it is clear which NPOs are intended to benefit from the use of INPAG? (Question 2b)**

Comment. According to the Exposure Draft the INPAG is intended to be used primarily by those that need to prepare financial information on an accrual basis because they and their users need information on assets and liabilities, and detail on income and expenses, that can only be provided by accrual accounting.

While the definition provided by the document is clear, perhaps more guidance could help the NPOs on deciding which framework they should use. For instance, in some cases the primary users may need information on assets and liabilities, but given their lack of materiality, the benefits of adopting the INPAG may not justify the costs of doing so.

**2. Narrative reporting**

**Do you agree with the principles proposed to underpin narrative reporting? (Question 12a)**

**Do you agree with the scope of the minimum mandatory requirement? (Question 12b)**

Comment. The principles proposed for the narrative reporting are clear and well explained. The document explains that “Additional mandatory areas for inclusion, such as climate and broader sustainability reporting, were considered but were not progressed to keep the core requirement small. Instead, NPOs can opt to extend their narrative reports to cover additional areas provided that the mandatory topics and elements that are important to users of all NPO general purpose financial reports have been met”. While this approach seems reasonable, it maybe also important to encourage NPOs to develop even basic reporting practices on the areas of sustainability and climate. Perhaps the Exposure Draft could lay out some basic principles and transitory requirements which could be considered by NPOs over time and support them in their path for progressively expanding the narrative on such areas.

**3. Service potential.**

**• Do you agree that ‘service potential’ should be introduced into INPAG? (Question 3g)**

Comment. The concept of service potential seems reasonable given the fact that (as explained in the Exposure Draft) NPOs often hold assets in order to provide services and goods in accordance with their objectives rather than to generate and maximize cash flows.

Nevertheless, given the potential not only for confusion, but also for error, and even purposely misleading primary users and other parties interested in the financial information (for example, tax authorities), the standard setter could consider the possibility of issuing complementary guidance with the criteria for classifying, measuring, and disclosing the different type of assets hold by NPOs.

1. **Value proposition:** Given a financial reporting framework, including IFRS for SME, cash and accrual basis IPSAS are already available for NPO, the ED1 need to highlight the difference between the proposed framework and what currently exits. A question instantly comes up why a separate reporting standard is needed and what are the value proposition?

**Size of Entity and Accrual basis of accounting-** Most of the NPOs prefer simplified accounting and follow cash basis of accounting. The proposed guidance suggests accrual basis of accounting without leaving the option to choose one of the two major accounting methods: accrual-basis accounting or cash-basis accounting. Often size and pattern of business activities or transactions determine the method, as such a flexible approach seems more feasible.

Considering the common argument as to accrual basis of accounting that it fails to provide an accurate depiction of current net assets as many incomes are pending at the time of reporting, it might be a good idea to leave both the options open with mandatory IPSAS compliance.

**NPOs with IFRS similar to SME**- As per the draft, the INPAG concepts and principles have been adapted from the IFRS for SMEs Accounting Standard and take account of the conceptual frameworks used in the development of IFRS Accounting Standards and IPSASB standards. A blanket adoption of IFRS like SME for NPO may create confusion as most countries national authorities have agreed that SMEs should have fewer financial reporting requirements. The primary reason for this to provide relief to SMEs from the burden and disproportionate costs of compliance associated with the full financial reporting requirements that apply to PIEs. Like SMEs, NPOs usually have a reduced number of user groups, less complex transactions, and therefore a narrower range of information is needed for decision-making purposes by its stakeholders.

It is worth considering for NPO the concepts of differential and simplified reporting by using quantitative size-based criteria (e.g. total income, total net assets, number of employees, size of funds with restriction) to determine thresholds for financial reporting requirements i.e general purpose financial statements prepared in full compliance with IFRS or the national equivalent standard or simplified financial reporting requirements that are consistent with the main principles of IFRS for SMEs and that are aligned as far as possible with the country rules and regulations.

**Narrative reporting-** Considering growing importance of sustainability and climate change, the Exposure Draft could suggest basic reporting requirement on these areas so that NPOs are well equipped to tackle current and future needs in this respect.

**Funds with restriction and financial position:** These are tied funds to support activities defined by the financiers. The ED suggests a separate column for its reporting. Is it necessary? It seems disclosure note (material note) better option from the presentation and information perspective. Also funds with restriction is suggested to exclude from the calculation of financial position and to show it separately. Why two separate set of reporting to determine financial position of NPOs, one for restricted funds and one for without restriction. Given that flow of funds is the determining factor to identify financial position irrespective of the form of funds, consideration might be given to combine both the resources to show financial strengthens of an entity.

1. **Other particular Comments (following template)**

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| **Question 1: General comments** | The Guidance is split into Sections that mirror the structure of the *IFRS for SMEs* Accounting Standard. INPAG has 3 volumes; (i) authoritative guidance (G) and application guidance (AG), (ii) a basis for conclusion that explains the reasons for the approach taken (BC) and (iii) non-authoritative implementation guidance (IG). |
|  | **References** | **Response** |
| 1. Is the structure of INPAG helpful? If not, how could it be improved?
 | GP22-GP24 | **The structure of INPAG is helpful and its organization by topic in separate sections makes it easy to follow. Moreover, the fact that IFRS for SMEs are used as a foundational framework make INPAG easy to understand and the inclusion of status indicators for each section indicating whether it is new, modified, updated, or contains editorial changes is very useful.** |
| 1. 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.
 |  | **This is a great initiative that comes to fill a void in the specific standards / guidance for NPOs reporting, as justified by the results of the International Survey in 2014 followed by the overwhelming support to the consultation paper issued in 2021 on the proposal for development of INPAG.** **The document explains adequately the background, objectives, and approach to INPAG development, and it does a great job in explaining the different alternatives considered both from the technical and practical standpoints during the process and the rationale used for deciding the proposed approach.** **The decision for a phased approach to publishing the draft guidance in three different stages is commended.** |

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| **Question 2: Description of NPOs and users of INPAG**  | This Section sets out a broad characteristics approach to identifying those entities to whom INPAG might apply. This descriptive approach is used rather than a single definition, given the diversity of NPOs.Although an entity might be described as an NPO for the purposes of INPAG based on these characteristics, INPAG is not intending to apply to very small NPOs, where cash-based financial information might be sufficient, or those NPOs that meet the definition of public accountability in IFRS-based standards. |
|  | **References** | **Response** |
| 1. 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?
 | G1.2-G1.5 | **Yes, the definition is broad enough to cover the different types of entities that might be NPOs.**  |
| 1. 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?
 |  | **Yes, Section 1 thoroughly addresses the type of NPOs intended to benefit from the use of INPAG. Moreover, Application Guidance for Section 1 is useful for further clarifying the type of entities that might be NPOs.** |

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| **Question 3: Concepts and pervasive principles** | This Section sets out the concepts and principles that underpin the accounting requirements for NPO transactions and events. It describes a reporting entity for the purposes of INPAG and provides additional guidance about the sometimes complex structures used by NPOs to achieve their objectives. It identifies the primary users of financial statements and reports, their information needs and the characteristics of useful information. It also describes the elements of financial statements and how net assets are derived. It introduces the categorisation of accumulated funds into funds with restrictions and funds without restrictions.This Section is most likely to be read by standard setters, auditors, technical accounting advisors and financial accountants. |
|  | **References** | **Response** |
| 1. Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?
 | G2.3-G2.12 | **Yes.** |
| 1. Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?
 | G2.13-G2.32, AG2.1-AG2.3 | **Yes.** |
| 1. Do you agree with the components of net assets? If not, why not?
 | G2.73, Diagram 2.2 | **Yes.** |
| 1. 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?
 | G2.141, AG2.6-AG2.9 | **Yes.** |
| 1. 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?
 | G2.74-G2.75, AG2.4-AG2.5 | **Yes.** |
| 1. 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?
 | G2.142, AG2.8-AG2.9 | **Yes.** |
| 1. Do you agree that ‘service potential’ should be introduced into Section 2? If not, why not?
 | G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122 | **Yes, the concept of ‘service potential’ as based on IPSAS is clearly applicable to this case and should be introduced to Section 2.** |
| 1. 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?
 | G2.33-G2.36 | **Yes.** |
| 1. 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?
 | G2.43-G2.49, AG2.10-AG2.24. | **Yes.** |

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| **Question 4: Principles to enable comparability of financial statements**  | This Section provides the principles behind the development of financial statements, including consideration of whether an entity is a going concern. It looks at the ability to compare financial statements and sets out the principles of comparability and consistency. Comparatives are identified as being necessary for financial statements and narrative reports. This Section also looks at the ability to express compliance with INPAG. It also considers NPO-specific terminology. |

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|  | **References** | **Response** |
| 1. Do you agree with the proposed changes to terminology from the *IFRS for SMEs* Accounting Standard? If not, what would you propose and why?
 | Sections 3-10 |  |
| 1. 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?
 | G3.14, G3.19, AG3.9-AG3.11, BC5.11 |  |
| 1. Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?
 | G3.3-G3.7, AG3.3-AG3.5 |  |

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| **Question 5: Scope and presentation of the Statement of Financial Position**  | The Statement of Financial Position has proposals that the aggregate of the fund balances for funds with restrictions and funds without restriction and has associated disclosures. This statement mirrors those used in other international standards, including how assets and liabilities are classified, but has NPO-specific terminology. |
|  | **References** | **Response** |
| 1. 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?
 | G4.5-G4.9, AG4.4 |  |
| 1. 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?
 | G4.13-G4.14, AG4.5-AG4.7 |  |

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| **Question 6: Scope and presentation of the Statement of Income and Expenses**  | This Section is retitled from the equivalent Section in the *IFRS for SMEs* Accounting Standard to be more relevant for NPOs. References to ‘profit and loss’ are replaced with ‘surplus and deficit’. A key element of the presentation of this statement is that revenue and related expenses are split between those that have been received with restrictions and those that haven’t.Some income and expenses are proposed to be part of the Statement of Changes in Net Assets (see question 7). |
|  | **References** | **Response** |
| 1. Do you agree with the name of the primary statement being ‘Statement of Income and Expenses’? If not, why not?
 | BC5.1-BC5.5 |  |
| 1. Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?
 | G5.5, BC5.6 |  |
| 1. 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?
 | G5.3, AG5.4-AG5.6, BC5.9-BC5.12 |  |
| 1. 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?
 | Implementation guidance |  |

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| **Question 7: Scope and presentation of the Statement of Changes in Net Assets**  | This statement is derived from the Statement of Changes in Net Equity included in the *IFRS for SMEs* Accounting Standard. It includes a number of transactions that under the *IFRS for SMEs* Accounting Standard would be part of Other Comprehensive income. |
|  | **References** | **Responses** |
| 1. 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?
 | G6.2, BC5.13-BC5.16, BC6.1-BC6.5 |  |
| 1. 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?
 | G6.4 |  |

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| **Question 8: Scope and presentation of the Statement of Cash Flows**  | This Section includes disclosures to highlight NPO specific transactions, such as revenue to fund the purchase of property, plant and equipment. There are no changes to the fundamentals of the cash flow from the *IFRS for SMEs* Accounting Standard, with both the direct and indirect methods of producing a Statement of cash flows permitted. |
|  | **References** | **Responses** |
| 1. 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?
 | G7.4 a) |  |
| 1. 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?
 | G7.5 b) |  |
| 1. Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?
 | G7.7-G7.9 |  |

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| **Question 9: Principles underpinning the notes to the financial statements**  | This Section sets out the general requirements for disclosures and the notes to the primary financial statements. There are no known NPO specific issues for this Section and modifications made to align with other Sections. |
|  | **References** | **Responses** |
| 1. Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?
 |  | **Yes, the approach followed in IFRS for SMEs is sufficient as no additional NPO-specific considerations need to be addressed in this section.** |

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| **Question 10: Approach to consolidated and separate financial statements**  | This Section sets out the principles to identify control and provides additional guidance about how control applies to NPOs. It also includes a simplification for control in a number of defined circumstances (a rebuttable presumption). It provides guidance on less common situations when consolidation might not be appropriate. The Section uses NPO-specific terminology. |
|  | References | **Response** |
| 1. Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?
 | AG9.1-AG9.14 | **Yes, guidance on the application of control principles seems sufficient.** |
| 1. 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?
 | G9.17 | **Yes. The term ‘rebuttable presumption’ , though, could be changed to allow easier understandig by a wider audience (e.g. questionable or refutable presumption could be alternative terms).** |
| 1. 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?
 | G9.21-G9.22, AG9.17-AG9.19 | **Yes, the two fundamental qualitative characteristics of relevance and faithful representation that apply to consolidation are sufficiently explained in the Application Guidance.** |
| 1. 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?
 | G9.7, G9.24 | **Yes.** |

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| **Question 11: Approach to accounting policies, construction of estimates and accounting for errors** | This Section sets out the requirements for disclosure and approach to accounting policies, estimates and errors. There are no known NPO specific issues for this Section with modifications made to align with other Sections. |
|  | **References** | **Responses** |
| 1. 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?
 |  | **Yes, the approach followed in IFRS for SMEs is sufficient as no additional NPO-specific considerations need to be addressed in this section.**  |

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| **Question 12: Scope and content of narrative reporting**  | This is a new Section that has been written specifically for NPOs. It sets out the principles for narrative reporting, including the qualitative characteristics of the information to be included in the reports. It mandates the requirement for financial analysis and performance information to be included in general purpose financial reports. It leaves as optional any additional information that an NPO may wish to report on, such as sustainability reporting. It includes an exception, where information might be prejudicial to the operation of the NPO and the safety of its staff and volunteers. |
|  | **References** | **Responses** |
| 1. Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?
 | G35.3-G35.7  | **Yes. The principles proposed are clear and promote the inclusion of information useful to users of the NPO’s general purpose financial report.**  |
| 1. 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?
 | G35.8-G35.19, G35.30, AG35.2-AG35.13  | **Yes. However, due to the importance of sustainability reporting, additional minimum requirements in this regard (even if less complex than for other type of entities) could be considered.** |
| 1. Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?
 | G35.7  | **Yes, this is important as per the risk of harm to NPO staff/volunteers when NPO engages in sensitive activities.**  |
| 1. 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?
 |  | **Yes, a two-year transition period makes sense and promotes a phased approach to INPAG adoption.** |