



Financial Reporting Council

**Karen Sanderson**

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12 March 2024

**International Non-Profit Accounting Guidance Exposure Draft 2 ('INPAG ED2' or 'Guidance'): Invitation to comment**

Dear Karen,

I am writing on behalf of the UK's Financial Reporting Council (FRC) in response to the above consultation.

We welcome the opportunity to contribute to your Guidance development process, both through our responses to consultations and our participation in the project's Technical Advisory Group. Our detailed comments in response to INPAG ED2 are included in the Appendix to this letter. However, there are two key themes which I would like to highlight here.

**1. The scale and complexity of the INPAG project**

We believe the project has the potential to contribute towards addressing the gaps that exist in international financial reporting frameworks in relation to non-profit organisations (NPOs).

We understand that the ambition of the project is to provide a standalone financial reporting framework usable by NPOs worldwide. However, we are concerned that the direction of travel of the project may result in guidance that is too complex for NPOs to be able to apply successfully in practice. In this regard, I draw your attention to our response to INPAG ED1 highlighting our concerns on the drafting approach to INPAG; by organising guidance into the Authoritative Guidance, Implementation Guidance, Basis for Conclusions and Illustrative examples, the whole document has become unwieldy. Undoubtedly, this will lead to confusion in practical application. In addition, in the Appendix to this letter, we raise significant concerns regarding the structure and content of proposed Section 23 *Revenue* of INPAG.

In order to be successful in practice, INPAG will need to be proportionate to the size and complexity of the entities expected to apply it. We have consistently heard feedback that public benefit entities (PBEs) in the UK are resource- and expertise-constrained compared with

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commercial entities, and we expect that this will be true in many other jurisdictions as well. As discussed, in our detailed response we are concerned that INPAG will be too complicated to adopt and apply in practice. This may introduce barriers to entry, and/or to the successful application of INPAG to produce high-quality, understandable financial reporting.

The scale of the INPAG project, and related output, has been expanded as a result of the decision to develop various supporting guidance, in addition to being based on the foundational framework of the *IFRS for SMEs* Accounting Standard. This is in contrast to the approach taken in the UK, where most PBEs are required to comply with a general-purpose financial reporting standard (FRS 102), which includes requirements for PBE-specific transactions, and additional guidance is set out in the Statements of Recommended Practice (SORPs) to aid the interpretation of the general-purpose standard.

We have similar concerns around the complexity of the process for developing INPAG, with three separate and lengthy Exposure Drafts. While the INPAG team has taken significant steps to raise awareness of the project amongst a wide cross-section of stakeholders, constructive and comprehensive engagement with the detailed proposals may be a challenge for some stakeholders. Even from our perspective as an accounting standard setter, we are aware of the scale of ED2 especially in terms of the amount of content to engage with and the number of questions posed in the Invitation to comment. Whilst, at this stage in the project, your ability to address this will of course be limited, we recommend that you consider whether it is possible to reduce the number of questions posed in the Invitation to comment on INPAG ED3, to focus on the most fundamental issues.

## 2. Areas of technical disagreement

Our response draws on the FRC's experience in developing accounting standards applicable in the UK and Republic of Ireland. This includes FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which addresses issues specific to entities that may be categorised as NPOs. The requirements in FRS 102 were originally based on the *IFRS for SMEs* Accounting Standard, modified both in terms of the scope of entities eligible to apply it and the accounting treatments provided.<sup>1</sup> The scope of FRS 102 includes PBEs and therefore includes the most significant and relevant PBE-specific issues.

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<sup>1</sup> For details, refer to the *Significant differences between FRS 102 and the IFRS for SMEs Standard* available at: <https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/significant-differences-between-frs-102-and-the-if>



As set out in the Appendix, we have some fundamental reservations about certain aspects of the proposals in relation to the accounting for revenue and services in-kind. Specifically:

- In respect of Section 23 we have concerns about the overarching terminology related to grant arrangements and the structure of the section. It is also difficult to comment comprehensively on some of the proposals for that section without seeing whether and how you intend to modify Section 12 *Fair Value Measurement* to reflect NPO requirements (which is expected to be set out in INPAG ED3).
- We disagree that the recognition of services in-kind should be determined by an assessment of whether they are 'mission critical'. We believe that making this assessment is likely to introduce significant judgement, and that an NPO may be in receipt of material services in-kind that may not be mission critical but should nevertheless be recognised. INPAG ED2 proposes only to encourage, not require, recognition of such services in-kind, which we think risks substantively understating an NPO's income.
- On the other hand, we recognise that even when services in-kind are 'mission critical', their measurement can be challenging. INPAG ED2 proposes to require their recognition when the value of such services can be reliably measured. We agree with this principle, and suggest that, to reduce the amount of judgement required of preparers, it might be better to state that general volunteer contributions cannot be measured reliably and therefore shall not be recognised.

At the time of writing, the FRC is in the process of finalising amendments to FRS 102 which were exposed for public comment in FRED 82 *Draft amendments to FRS 102 and other FRSs – Periodic Review*. Therefore, our response to INPAG ED2 refers to extant FRS 102 and the proposed amendments in FRED 82, but may not necessarily reflect the final amendments, which we currently expect to publish in the first half of 2024.

The views expressed in our response to INPAG ED2 are separate from, and will not necessarily affect, the FRC's future development and maintenance of UK and Ireland financial reporting standards.

If you have any queries or would like to discuss our comments in more detail, please contact Omadevi Jani or Adrian Wallis at [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mark Babington'.

**Mark Babington**

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# International Non-profit Accounting Guidance (INPAG) Exposure Draft 2

## Response template

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 2](#)

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) 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, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish.

You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **15 March 2024 and must be in English.**

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

**Respondent information:**

<b>First name:</b>	Mark	<b>Organisation:</b> (who do you work for)	Financial Reporting Council
<b>Last name:</b>	Babington	<b>Response:</b> Are you submitting your response <ul style="list-style-type: none"> <li>• on behalf of my organisation</li> <li>• as an individual</li> </ul>	On behalf of my organisation
<b>Email:</b>	M.Babington@frc.org.uk	<b>Country:</b> (this should be the country in which you are based)	United Kingdom
<b>Position:</b>	Executive Director, Regulatory Standards	<b>Professional interest:</b> please choose from: <ul style="list-style-type: none"> <li>• NPO, ie preparer of financial statements,</li> <li>• auditor,</li> <li>• accounting standard setter,</li> <li>• professional accounting organisation,</li> <li>• regulator of NPOs,</li> <li>• donor,</li> <li>• academic,</li> <li>• civil society,</li> <li>• user of NPO services,</li> <li>• other (please state)</li> </ul>	Accounting standard setter

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	<b>Tick boxes</b> No
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This document has been designed purely to enable feedback to Exposure Draft 2. 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](mailto:ifr4npo@cipfa.org)

## Specific Matters for Comment

<b>Question 1: Financial instruments</b>		
<b>INPAG Section 11</b> provides guidance on the treatment of financial assets and financial liabilities. It has two parts, Part I that addresses simpler financial instruments and Part II that addresses more complex financial instruments. There are no significant changes other than alignment with other sections.		
	<b>References</b>	<b>Response</b>
a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.	Section 11	<p>We have not noted any specific alignment changes that may be required to INPAG Section 11.</p> <p>However, we note that in FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>, there is a permitted exception available to Public Benefit Entities (PBEs) in Section 11. PBEs that make or receive concessionary loans have the option of measuring such loans at either the amount paid or received or at fair value. Further details can be found in paragraphs PBE34.87 to PBE34.97. This includes requirements relating to concessionary loans between entities within a public benefit entity group.</p> <p>We understand that guidance on concessionary loans will not be included in the first edition of INPAG. We suggest you consider it for a future update to INPAG.</p>

**Question 2: Inventories**

**INPAG Section 13** provides guidance on the recognition, measurement and disclosure of inventories. Major changes have been made to broaden the scope of this section to include NPO specific inventory and set out their measurement, where inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. It has been modified to allow the use of permitted exceptions where certain donated items are not recognised in inventories. It has also been amended to allow NPOs to expense services to be provided to service recipients for no or nominal amounts as incurred rather than as work in progress within inventories. Disclosures have been updated to address the use of permitted exceptions and where donated inventories cannot be reliably measured.

	References	Response
a) Do you agree with the expansion of Section 13 <i>Inventories</i> to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?	G13.1	<p>We agree that the definition of inventory should include items held for use internally for fundraising or distribution. FRS 102 includes similar requirements for all entities in paragraph 13.4A which states:</p> <p><b><i>Inventories held for distribution at no or nominal consideration shall be measured at the lower of cost adjusted, when applicable, for any loss of service potential and replacement cost.</i></b></p>
b) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory? If not, what would you propose instead/.	G13.2, G13.5 (a)-(c)	<p>We do not agree with all the permitted exceptions for the reasons set out below.</p> <p><b>1. Proposed exception in paragraph G13.5(a)</b></p> <p>The proposed exception in paragraph G13.5(a) is that an NPO shall not recognise inventories when it elects to apply the exception set out in paragraph G23.37(a):</p> <p><i>“low-value items donated to the NPO for resale or to be transferred to another party in the course of the NPO’s fundraising activities, [may be] recognised as revenue when the items are sold or fundraising activity takes place.”</i></p> <p>FRS 102 expects in most cases that donated inventory shall be recognised on receipt. However, paragraph PBE34.70 provides a similar exception, except that this is limited to situations when it is impracticable to estimate the value of the resource with sufficient reliability at the time that the resource is received or receivable. For example, the exception might be suitable in the case of high volume, low value</p>



		<p>second-hand goods donated for resale. In such cases, the income from the donation is recognised in the financial period when the resource is sold or distributed.</p> <p>Because the exception in FRS 102 is limited to situations in which recognition on receipt is impracticable, its application is narrower than the proposed exception in paragraph G13.5(a) which would apply to all low-value items donated for resale or transfer. We think that, in general, resources should be recognised when received or receivable, and therefore that it would be appropriate to narrow the applicability of this proposed exception.</p> <p><b>2. Proposed exception in paragraph G13.5(b)</b></p> <p>The proposed exception in paragraph G13.5(b) is that an NPO shall not recognise inventories when it elects to apply the exception set out in paragraph G23.37(b), therefore permitting:</p> <p style="padding-left: 40px;"><i>“(items (other than non-current assets or high-value items) donated to the NPO for distribution to service recipients or for the NPO’s own use, [to be] recognised as revenue and an expense when the items are distributed or used).”</i></p> <p>FRS 102 expects in most cases that donated inventory shall be recognised on receipt. This is true even when the entity intends to distribute it for nil or nominal consideration. Part of the rationale is that until the entity has given the inventory away for no or nominal consideration, or used the inventory itself, it could instead choose to sell that inventory for market value, and therefore an asset should be recognised. (In addition, unlike in the case of low-value goods for resale, the subsequent distribution or use of such inventory may not provide any additional information about the value of the inventory that would not already have been available at the point of receipt.)</p> <p>Not recognising such inventory at all would lead to an understatement of assets in the period of time between the item being donated and being sold/used. Furthermore, income would be recognised later and the timing of income recognition would in effect be determined by the timing of expenditure. This would mirror the ‘matching principle’, which is not generally appropriate.</p>
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	<p>In developing FRS 102, we considered the example of PBEs that operate food banks, who may receive donations of food that they distribute for no consideration to intermediaries, or directly to service recipients. We consider that permitting such donations not to be recognised until they are distributed or used could lead to the financial statements understating the size and impact of the NPO, and of the need that it addresses, and could have other unintended implications, such as exempting an NPO from an audit regime.</p> <p>Overall, we disagree with the exception in paragraph 13.5(b) because we think that non-recognition should be a rare exception to the general rule.</p> <p><b>3. Proposed exception in paragraph G13.5(c)</b></p> <p>The proposed exception in paragraph G13.5(c) is that an NPO shall not recognise work in progress that comprises services in-kind that are donated to the NPO when it elects to apply the exception set out in paragraph G23.37(c):</p> <p style="text-align: center;"><i>“not recognising revenue in respect of any services in-kind, except those that are critical to the NPO’s mission.”</i></p> <p>In the above exception we have assumed that the work in progress will be sold for more than nominal consideration. If the intention was that this work in progress was to be provided at no or nominal consideration, then in such cases, it would not result in an asset similar to the exception set out in paragraph G13.5(d).</p> <p>Whilst the proposed exceptions in G13.5(a) and G13.5(b) represent the deferral of the recognition of income, the proposed exception in G13.5(c) would lead to certain elements of income (and, correspondingly, certain assets) never being recognised.</p> <p>We do not agree with this exception for the same reasons outlined in our response to question 4(f) in that services in-kind that are not mission-critical should not be the determining factor here and as such some services in-kind should be recognised, which could include those that contribute to work in progress.</p> <p>However, as also discussed in our response to question 4(g), we agree that some services in-kind (such as general volunteer time) will not be reliably measurable and</p>
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		<p>should therefore not be recognised. Naturally, if the income from services in-kind is not recognised, nor will a corresponding inventory balance.</p> <p><b>4. Proposed exception in paragraph G13.5(d)</b></p> <p>The Invitation to comment requests views on paragraphs G13.5 (a)-(c); however, we also have comments in respect of paragraph G13.5(d).</p> <p>The proposed exception in paragraph G13.5(d) permits the following:</p> <p style="text-align: center;"><i>“[an NPO shall not recognise] work in progress that comprises services to be provided for no or nominal consideration and the NPO elects to expense the costs as they are incurred.”</i></p> <p>We understand that in cases when there is work in progress in respect of services provided at no or nominal consideration, which would not result in an asset, this exception would be appropriate.</p> <p>We are also unclear whether expensing the costs as they are incurred in such a situation is in fact an election, and, if so, where in the guidance this is set out. We note that paragraph G13.5(d) does not cross-refer to another section of the guidance.</p>
c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	G13.7	<p>We agree. In FRS 102, paragraph 13.5A specifies that when inventories are acquired through a non-exchange transaction (which would include donations, as well as items purchased by the entity for less than market price), their cost shall be measured at their fair value as at the date of acquisition. This is useful because the presumption in IFRS Accounting Standards and the <i>IFRS for SMEs</i> Accounting Standard that inventories are purchased at market value by the entity is not necessarily true for all entities that apply FRS 102.</p>
d) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss of service potential, and replacement	G13.8	<p>We agree. In FRS 102, paragraph 13.4A specifies that inventories held for distribution at no or nominal consideration shall be measured at the lower of cost adjusted, when applicable, for any loss of service potential and replacement cost.</p>

cost? If not, what would you propose instead?		
e) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognised because they cannot be reliably measured? If not, what would you propose instead?	G13.26 (e), G13.27	We agree that when items are not recognised in the financial statements due to the use of an exception, the use of the exception should be disclosed as part of the NPO's accounting policies. We therefore suggest that paragraph G13.26(a) is re-drafted to be make this clearer.



**Question 3: Provisions and contingencies**

**INPAG Section 21** provides guidance on the recognition, measurement and disclosure of provisions (being liabilities of uncertain timing or amount), contingent assets and contingent liabilities. All examples are located in the Implementation Guidance and have been updated to be more relevant to NPOs, including an example relating to onerous grant agreements.

	References	Response
a) Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?	Section 21, Illustrative example 3	<p><b>1. Warranties</b></p> <p>We disagree with removing the warranty example. We think that retaining a warranty example could be useful, especially because proposed Section 23 directs an NPO to account for a warranty in accordance with Section 21 in some circumstances. We think that a warranty example might be particularly relevant for trading subsidiaries of NPO groups.</p> <p><b>2. Onerous contracts</b></p> <p>We agree with the addition of a new example on onerous grant agreements. However, we are unsure whether the situation outlined in Illustrative Example 3 is likely to be material to a given contract in practice.</p> <p>We also note that Illustrative Example 2 to proposed INPAG Section 21 omits the first two sentences, and the conclusion, from Illustrative Example 2 of the Appendix to Section 21 of the <i>IFRS for SMEs</i> Accounting Standard. We think that guidance should be reinstated because it could be helpful to NPOs thinking about how to measure a provision in those circumstances.</p>

**Question 4: Revenue**

**INPAG Section 23** has been expanded to specifically cover revenue from grants and donations. It comprises two parts with a preface that contains content that is common to both.

Part I is new material that has been written specifically for NPOs that sets out the requirements for the recognition, measurement and disclosure of revenue from grants and donations. The timing of revenue recognition is dependent on the existence of an enforceable grant arrangement (EGA), which must have at least one enforceable grant obligation (EGO). It follows the concepts in the 5 step model for revenue recognition used in international standards. Part I also describes permitted exceptions for the recognition of gifts in-kind and services in-kind.

Part II reflects the *IFRS for SMEs* Accounting Standard material for contracts with customers provides. It provides simplified guidance for less complex contracts.

	<b>References</b>	<b>Response</b>
<b>Significant matters</b>	n/a	<p>We highlight the following topics where we have fundamental concerns with the approach proposed in INPAG ED2. Should you pursue the approach proposed in INPAG ED2, we have also provided some more detailed comments on the specific proposals below.</p> <p><b>1. Structure and complexity of Section 23</b></p> <p>Firstly, we consider that the proposed structure of the Section 23, with eight distinct sets of requirements that apply in different circumstances, is undesirably complex and may risk the Guidance being burdensome to apply in practice.</p> <p>Secondly, the way in which the terminology and scopes are defined in the INPAG proposals means there is a significant risk that a transaction may fall out of scope or overlap in scope, between Part I and Part II of Section 23. We suggest that the guidance would work better if ‘revenue from contracts with customers’ and ‘non-exchange transactions’ were fully separated and more distinct sections in INPAG. The section for ‘non-exchange transactions’ could be presented separately and first because it is likely to be more relevant to most NPOs.</p>

		<p><b>2. Timing of final INPAG publication</b></p> <p>Much of the proposed content of INPAG Section 23 is based on the IASB's Exposure Draft <i>Third Edition of the IFRS for SMEs Accounting Standard</i> (IASB/ED/2022/1). The IASB is currently continuing its redeliberation of the proposals in IASB/ED/2022/1 and, at its October 2023 meeting, discussed and agreed plans to redeliberate a number of topics in proposed Section 23 <i>Revenue from Contracts with Customers</i>.</p> <p>We understand that you are intending to base INPAG on the final version of the Third Edition of the <i>IFRS for SMEs Accounting Standard</i>, and this is likely to result in amendments to what was exposed in ED2 (not necessarily limited to Section 23). We believe that considering the interaction between the changes to the foundational <i>IFRS for SMEs Accounting Standard</i> and the responses to the INPAG EDs may add an additional risk to the timetable.</p> <p><b>3. Matters to be addressed in ED3</b></p> <p>It is difficult to comment comprehensively on some of the proposals for INPAG Section 23, for example paragraph G23.33, without seeing whether and how you intend to modify the requirements in the <i>IFRS for SMEs Accounting Standard</i> relating to fair value to reflect NPO requirements.</p> <p><b>4. Accounting for donations in-kind</b></p> <p><b><i>Services in-kind</i></b></p> <p>(i) FRS 102 requires donated services and facilities to be measured at their 'value to the entity', rather than at fair value which is proposed by INPAG ED2. This is an exception from the general requirement in FRS 102 to measure donations at fair value. The 'value to the entity' is the price the entity estimates it would have paid in the open market for a service or facility of equivalent utility to the entity.</p> <p>INPAG proposes that services in-kind need not be recognised if they are not mission critical. In our view, services in-kind are likely to have value to an NPO, even if they are not mission critical, which should be recognised if</p>
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		<p>they can be measured reliably. Therefore, we disagree with this aspect of the INPAG proposals.</p> <p>(ii) We note that the drafting of paragraph G23.40 could be clearer, and use 'shall' instead of 'may.'</p> <p><b>General volunteer time</b></p> <p>(i) In FRS 102, general volunteer time is not recognised in the financial statements on pragmatic grounds. It is widely acknowledged that there are potential issues in determining a value for volunteer services and their contribution to the organisation. In many cases, the quantification of volunteers' services is not practicable: for example, a large international aid charity may have many volunteers worldwide and the number of volunteers (and the nature and amount of volunteering services provided) may change daily. In such cases, it may not be possible to measure reliably the general volunteer time. FRS 102 states that volunteer time is not expected to be reliably measurable, and therefore requires that it shall not be recognised.</p> <p>Paragraphs 6.18 and 6.19 of the Charities SORP provide further explanations on why general volunteer time is not recognised.</p> <p>As a result, we disagree with the INPAG proposals in this area, and point out a lack of clarity or guidance on the practical issues of recognising general volunteer time in the financial statements. Please also refer to our response on this area in Question 4(g).</p>
<p>a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements<sup>1</sup>. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and</p>	<p>G23.23-G23.30, G24.3-G24.4</p>	<p>We do not agree because we have reservations, as set out below, about the scope and definitions of these terms which we think could be confusing, especially for readers already familiar with the term 'non-exchange transaction'.</p>

<sup>1</sup> Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.



<p>their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?</p>		<p><b>1. Scope of requirements</b></p> <p>We think that the way in which terms and scopes are defined in the proposals risks there being an overlap in scope between Part I and Part II, and risks some transactions falling outside the scope of either Part. For example, we think that it is not clear within which Part's scope a transaction for the exchange of unequal value would fall, because:</p> <ul style="list-style-type: none"> <li>- Paragraph G23.5 explains that under Part I, the NPO does not provide <u>any</u> cash, or a service, good or other asset in return to the entity that provides resources. This suggests a transaction for exchange of unequal value is not in scope of Part I.</li> <li>- Paragraph G23.6 explains that under Part II, a transaction is usually at market rate. This suggests a transaction for exchange of unequal value is not in scope of Part II.</li> </ul> <p>Overall, we think that the scope and terms of Section 23 of INPAG should be set so that it is clear which requirements apply to which transaction type, and would avoid overlap where possible.</p> <p>As an example, in FRS 102 we use the term 'non-exchange transaction', which is "<i>a transaction whereby an entity receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange</i>". We think this is a helpful way to split the requirements, which incorporates all non-exchange income transactions that could reasonably occur:</p> <ul style="list-style-type: none"> <li>- a PBE receives goods or services from another party and gives less value (or zero value) to that party;</li> <li>- a PBE provides goods or services to another party and receives less value (but not zero value) in return; and</li> <li>- a PBE provides goods or services (or provides nothing) to another party and receives more value in return.</li> </ul>
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		<p>In FRS 102, whilst it is plausible that a contract with a customer could involve a non-exchange transaction, the scope of Section 23 of FRS 102 specifically excludes non-exchange transactions, so that the requirements do not overlap.</p> <p><b>2. Specific points on the definition of EGA</b></p> <ul style="list-style-type: none"> <li>- We think that, ideally, the definition of EGA should not depend on the word 'grant' because that is part of the term being defined.</li> <li>- The requirements in paragraph G23.26 seem crucial to determining if an EGA exists, and so could usefully be incorporated into the Glossary definition.</li> <li>- Paragraph G23.29 suggests that some requirements imposed on an NPO might not meet the definition of an EGO. However, the definition of an EGA says that a grant recipient's undertakings under an EGA <u>are</u> (ie in all cases) EGOs.</li> </ul> <p><b>3. Other points</b></p> <p>The definition of enforceable grant obligation (EGO) is not consistent. For instance, paragraph G24.4 is different to the definition in the Glossary.</p> <p>The term 'other funding arrangement' is not defined in the Glossary but is in bold throughout the Guidance. We would expect the definition of OFA to include donations because the donation cannot be enforced.</p>
<p>b) Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?</p>	<p>Section 23</p>	<p>We do not agree. We believe that the proposed structure is undesirably complex and may risk the Guidance being burdensome to apply in practice.</p> <p>Proposed Section 23 has two parts, which consist of eight distinct sets of requirements (as well as further guidance when applying Part II to a simple transaction):</p> <ul style="list-style-type: none"> <li>- Part I, which is applied to: <ul style="list-style-type: none"> <li>• enforceable grant arrangements with: <ul style="list-style-type: none"> <li>▪ a single obligation (this is an optional expedient); or</li> <li>▪ any number of obligations; or</li> </ul> </li> <li>• other funding arrangements:</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>▪ in general; or</li> <li>▪ that are <ul style="list-style-type: none"> <li>• low value assets for resale or for fundraising;</li> <li>• items donated for distribution to service recipients or own use; or</li> <li>• services in kind that are not critical to an NPO's mission; and</li> </ul> </li> </ul> <p>- Part II (including further guidance when applying Part II to a simple transaction), which is applied to:</p> <ul style="list-style-type: none"> <li>• contracts with customers; or</li> <li>• enforceable grant arrangements (optionally applied instead of Part I via paragraph G23.41, and modified as set out in AG23.39).</li> </ul> <p>At a high level, proposed Section 23 brings together, in a single section, requirements for two types of transactions (exchange and non-exchange) that are conceptually quite different. This has resulted in a complicated set of requirements, and applying the same five-step model to both 'enforceable grant arrangements' and 'contracts with customers' requires the reader to jump around to different parts of the section to fully understand what is required. This is particularly difficult when an NPO is applying Part II to an EGA and has to make the substitutions set out in paragraph AG23.39.</p> <p>In FRS 102, the FRC proposed in FRED 82 to introduce a five-step model for recognising revenue from contracts with customers but we have not, at this stage, proposed to move accounting for government grants or non-exchange transactions into such a model and have not heard feedback that we ought to consider doing so. We are, however, interested to see how the requirements of INPAG develop to address such transactions.</p> <p>We think that it would be helpful to have 'revenue from contracts with customers' as a separate section. This could be largely the same as proposed Section 23 of the <i>IFRS for SMEs</i> Accounting Standard, and it would therefore be easier for preparers and users that are familiar with other sectors to understand and follow those requirements</p>
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		<p>without needing to unpick them from the requirements for non-exchange transactions.</p> <p>A new, INPAG-specific section could then apply to non-exchange transactions. We think it is worth exploring further whether that section could have a single set of requirements (with permitted exemptions) that would apply to all non-exchange transactions and is based on the five-step model from IFRS 15, rather than separate requirements for enforceable grant arrangements and for other funding arrangements. For example, if one were to assume that an 'other funding arrangement' has a notional compliance obligation that is satisfied immediately on receipt of the resources, then steps 2, 4 and 5 of the five-step model would be trivial and the NPO could apply steps 1 and 3 to recognise income when the resources are received or receivable.</p>
<p>c) Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?</p>	<p>G23.27, G23.41-G23.59</p>	<p>We agree that the definition of a liability set out in paragraph G2.60 in ED1 would require the existence of a present obligation, which in this case would be in respect of the consideration received from the customer or grantor.</p> <p>In respect of other circumstances in which revenue could be deferred, we are not sure that determining that an arrangement is an EGA should be sufficient, on its own, to satisfy Step 1 of the five-step model (which is the requirement set out in paragraph G23.44). Similar to Step 1 of the five-step model for accounting for a contract with a customer that is set out in G23.74, we think that an NPO should only apply the revenue recognition model to account for an EGA when certain criteria are met. Those criteria could be equivalent to those in paragraph G23.74, but applied to the substance of grant arrangements, for example, perhaps that:</p> <ul style="list-style-type: none"> <li>a) the counterparty has provided resources, or has an obligation (which may be a constructive obligation) to provide resources to the NPO;</li> <li>b) the NPO can reliably measure the value of those resources and identify if any conditions are attached to its entitlement to, or use of, those resources;</li> </ul>



		<p>c) the NPO is committed to comply with any conditions attached to its entitlement to, or use of, the resources;</p> <p>d) there is reasonable assurance that the NPO will comply with any conditions attached to its entitlement to, or use of, the resources; and</p> <p>e) it is probable that the NPO will collect the resources to which it will be entitled. In evaluating whether collectability of resources is probable, an NPO shall consider only the counterparty's ability and intention to provide the resources when they are due.</p> <p>If those criteria are not met, any 'transaction amount' received would be deferred and the NPO would continue to reassess until the criteria are met or until conditions similar to those in paragraph G23.78 are met.</p> <p>As a result, we think that there could be situations in which Step 1 of the five-step model is not satisfied, and therefore revenue is effectively deferred, for reasons other than the grant recipient having a present obligation in relation to the revenue received.</p>
<p>d) The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?</p>	<p>G23.53-G23.56, G23.125-G23.138, AG23.52-AG23.59</p>	<p>We agree that revenue should be allocated to the obligations which must be satisfied in order to earn it. However, we are not sure that paragraphs G23.53 to G23.56 adequately express the intent of the model. For example:</p> <ul style="list-style-type: none"> <li>- It may not be clear how to apply paragraph G23.53 and allocate on "a stand-alone value basis that is relative to the estimated costs". We believe the intent is that, for example, in an EGA in which the NPO receives a £400 contribution towards three EGOs that will cost it £400, £200, and £200 to deliver, the £400 income is allocated to each activity in the ratio 400/800, 200/800 and 200/800, ie £200, £100, and £100. If so, a form of words that is closer to paragraph G23.127 may be clearer.</li> <li>- The definition of 'stand-alone value' in paragraph G23.54 is not the same as in the Glossary.</li> <li>- The second sentence of paragraph G23.54 should not be necessary because when a grant does not cover the full cost of the activity, allocating on a</li> </ul>

		standalone value basis should automatically allocate the grant appropriately, as in the example above.
e) Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?	G23.36, G23.37	<p>We do not agree with all the permitted exceptions set out in paragraphs G23.37(a) to 23.37(c) for the reasons set out below.</p> <p><b>1. Proposed exception in paragraph G23.37(a)</b>  We acknowledge that permitted exceptions are needed in relation to some gifts in-kind given the practical difficulties that may be faced by an NPO on receipt of such gifts. For example, FRS 102 permits a PBE to recognise income on donated in the financial period when the resource is sold, when recognition on receipt is impracticable, as set out in paragraph PBE34.70. This is on the basis that the subsequent sale provides better evidence of the value of the donated goods; it is less clear that such an approach would be appropriate when the donated goods are used or distributed rather than sold.</p> <p>The exception in FRS 102 is limited to situations in which recognition on receipt is impracticable, whereas this proposed exception under INPAG applies to all low-value items donated for resale or to be transferred. We think that, in general, resources should be recognised when received or receivable, and therefore that it would be appropriate to narrow the applicability of this proposed exception. We have raised similar comments above in our response to Question 2(b) in relation to proposed exception in G13.5(a) of INPAG.</p> <p><b>2. Proposed exception in paragraph G23.37(b)</b>  In short, we do not agree with this exception. As mentioned earlier, FRS 102 expects that donated inventory for distribution to service recipients shall be recognised on receipt. This is true even when the entity intends to distribute it for nil or nominal</p>

		<p>consideration. Therefore, the other side of this entry being the related revenue would also be recognised on receipt.</p> <p>Please refer to our response to Question 2(b) in respect of paragraph G13.5(b). The points raised are applicable here and provide details on why we do not consider this exception to be appropriate.</p> <p><b>3. Proposed exception in paragraph G23.37(c)</b> Our reservations and concerns on this exception have been discussed previously and in more detail below in Question 4(f).</p> <p><b>4. Use of permitted exceptions G23.37(a) to G23.37(c) – in EGAs</b> We concur that that these permitted exceptions are not expected to be appropriate for EGAs generally, however, we are not clear how a donation can be defined as an EGA given the definition of an EGA requires both a donor and grant recipient to have both rights and obligations, enforceable through legal or equivalent means. This is not aligned with the natural definition of a donation.</p>
<p>f) Do you agree that services in-kind are not required to be recognised unless they are mission critical? If not, on what basis should services in-kind be recognised and what is the rationale?</p>	<p>G23.36, G23.38, G23.63, AG23.35- AG23.36</p>	<p><b>1. Services in-kind: Recognition</b> ED2 proposes that NPOs will not be required to recognise services in-kind that are not mission critical. As a result, services in kind such as legal or accountancy services would likely not be recognised. We disagree that the recognition of services in-kind should be determined by an assessment of whether they are mission critical or not.</p> <p>In our view, the fact that some services in-kind are not mission critical should not exempt them from recognition. FRS 102 requires all donated services to be recognised if they can be reasonably quantified (extant paragraph PBE34B.8) / measured reliably (proposed paragraph PBE34.69). (As discussed above, FRS 102 states an expectation that general volunteer time cannot be measured reliably and shall therefore not be recognised.)</p> <p>Therefore, we do not concur with the permitted exemption set out in paragraph G23.37(c) of INPAG ED2 as this is likely to result in the non-recognition of</p>

		<p>certain services-in-kind that can be measured reliably, and consequently understatement of the NPO's income.</p> <p>We strongly suggest that this area is revisited to consider the scenarios where an NPO receives services in-kind (especially for legal, advisory or accountancy services) which the NPO would typically need to obtain even if these were not provided in-kind.</p> <p><b>2. Definition of mission critical</b></p> <p>INPAG focuses on recognising only those services-in-kind that are mission critical. However, the term 'mission critical' does not appear to be clearly defined. This may pose a challenge in practice and leave room for interpretation, leading to unintended consequences. We suggest that further clarity on how mission critical is defined together with a glossary definition is added to INPAG.</p>
<p>g) Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you proposed instead?</p>	<p>G23.31-G23.32, G23.35-G23.38</p>	<p><b>1. Accounting guidance in FRS 102</b></p> <p>Paragraph PBE34.73 of FRS 102 states:</p> <p><i>An entity shall measure incoming resources from non-exchange transactions as follows:</i></p> <p><i>(a) Donated services and facilities, that would otherwise have been purchased, shall be measured at the value to the entity.</i></p> <p><i>(b) All other incoming resources from non-exchange transactions shall be measured at the <b>fair value</b> of the resources received or receivable.</i></p> <p>Further accounting guidance on measurement is provided in extant paragraph PBE34B.15 and proposed paragraph PBE34.73A on how to measure 'the value to the entity' in the context of donated services.</p> <p><b>Extract from proposed PBE34.73A of FRED 82:</b></p> <p><i>Value to the entity is the price the entity estimates it would have paid in the open market for a service or facility of equivalent utility to the entity: for example, the amount that the entity would have paid had the service or</i></p>

		<p><i>facility not been donated. This may not be the same as the market value of the service or facility received. For example, if the entity received a premium service but would otherwise only have paid for a standard service, the value to the entity may be the value of a standard service. If an entity would not have purchased the service or facility at all had it not been donated, the value to the entity is expected to be nil.</i></p> <p>We suggest the IFR4NPO consider using 'value to the entity', rather than fair value, as the measurement basis for services in-kind. In our view, the approach in FRS 102 is more suitable for the measurement of services in-kind as it distinguishes that an entity would not recognise a service/facility at a 'premium' value if the market value of the service/facility donated to the NPO was more than what the entity needed in practice.</p> <p><b>2. Donations in-kind – fair value measurement and practical considerations</b></p> <p>We acknowledge that in some cases, it may be impracticable to measure the fair value reliably on receipt (for example when an NPO receives high volume, low value second-hand goods donated for resale), FRS 102 permits the associated income to be recognised when the resource is subsequently sold. We note that this is captured to some degree by the INPAG Guidance in paragraphs G23.37(a) and (b).</p> <p>However, we believe that further guidance is required in respect of those circumstances when there is no direct evidence of the fair value of the donations / services in-kind. In such circumstances, it is not clear how the NPO would measure the donations / services-in kind.</p> <p>We suggest that, if INPAG will require donations in-kind to be measured at fair value, then guidance on how an NPO may derive the fair value of donations in-kind in the absence of an active market may be required.</p> <p><b>3. Services in-kind – Application of fair value</b></p> <p>We believe that there is significant judgement involved in measurement of the services in-kind. The proposed guidance set out in paragraph AG23.35 of INPAG ED2 is not sufficient on the application of fair value measurement. For instance, there may be</p>
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		<p>challenges in the application of fair value for certain services in-kind, when there is no active market.</p> <p>In contrast, FRS 102 provides some guidance when there is no direct evidence of an open market value for an equivalent item in paragraph PBE34B.17.</p> <p><b>4. Services in-kind – Volunteer time</b></p> <p>We do not agree that all services in-kind can be measured at fair value. For instance, FRS 102 is clear that general contributions made by volunteers cannot be measured reliably and shall therefore not be recognised (extant paragraph PBE34B.11; proposed paragraph PBE34.69A).</p> <p>The measurement of general volunteer time could pose several practical issues and is highly subjective. For example, using a metric such as the minimum wage to measure volunteer time, does not take into consideration an organisation’s requirements for volunteers and is attributing an arbitrary value to a volunteer’s time which may not be reflective of their skills, experience or role.</p> <p>INPAG proposes to require the NPO to recognise services in-kind when they can be measured reliably and when they are mission critical, but it fails to provide any guidance on the practicalities of how to measure such unpaid services reliably, or what metric may be suitable to apply. For example, we understand that some international NPOs may have a large and regularly changing population of volunteers providing mission critical services in-kind, working across several international regions and we believe that it would be difficult for such NPOs to apply the proposed requirements of INPAG.</p> <p>If INPAG does not propose to exclude general volunteer time from recognition and measurement, then it is important that the Guidance provides some practical examples on this topic.</p>
h) Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to	G23.49	In principle we agree that administrative tasks are typically not separate individually enforceable obligations. As proposed in FRED 82, paragraph 23.19 of FRS 102 would state:

<p>identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.</p>		<p><i>Promises do not include activities that an entity must undertake to fulfil a contract unless those activities directly transfer a good or service to the customer. For example, set-up activities and administrative tasks which do not transfer a good or service to the customer would be disregarded for the purpose of identifying promises in a contract.</i></p> <p>In practice, such administrative tasks may include obtaining loan covenant compliance certification or audited financial statements. The question of whether such tasks will result in separate EGOs may be a matter of judgement and in some cases dependent on the specific terms and conditions of the individual EGA.</p> <p>Whilst FRS 102 does not provide any specific guidance on grant arrangements, the Charities SORP<sup>2</sup>, in paragraph 5.26, does provide more guidance on this matter:</p> <p style="text-align: center;"><i>Terms or conditions such as the submission of accounts or certification of expenditure are administrative requirements and would not prevent the recognition of income.</i></p> <p>This appears to support the general principles set out in paragraph G23.49 of INPAG ED2.</p>
<p>i) Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?</p>	<p>G23.61-G23.70</p>	<p>We are not opposed to the disclosure requirements set out in paragraphs G23.61 to G23.70.</p> <p>Whilst we note that accounting for government grants is contained within the requirements of Section 23 Part I <i>Revenue from grants and donations</i> of INPAG, some users may require more detailed information about government assistance (not limited to grants) than currently proposed in INPAG ED2. This is addressed in the <i>IFRS for SMEs</i> Accounting Standard and it is not clear why it is omitted from INPAG.</p>

<sup>2</sup> *Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland* available at <https://www.gov.uk/government/publications/charities-sorp-2005>

		<p>Paragraph 24.6(c) of the <i>IFRS for SMEs</i> Accounting Standard requires the disclosure of an indication of the forms of government assistance from which the entity (NPO) has directly benefited.</p> <p>We suggest that more consideration is given to this matter so that INPAG meets the needs of a wide range of users of financial statements especially where grant funding, including government grant funding, is a significant source of income for NPOs.</p>
j) Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why?	G23.42-G23.59, G23.73, AG23.37-AG23.40, AG23.62	See our responses to Questions 4(a) and (b) for broader comments on the structure of INPAG Section 23.
k) Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.		Please refer to our comments at the start of this table under Significant Matters and in Question 4(a).



**Question 5: Expenses on grants and donations**

**INPAG Section 24** is new and covers accounting for expenses. Part 1 of this Section covers Expenses on grants and donations. Guidance covers the recognition, measurement and disclosure of grants that an NPO makes to other entities or individuals. As with Section 23 Part I, it has a model for recognising expenses on grants and donations that depends on the existence of an EGA.

	<b>References</b>	<b>Response</b>
Introductory remarks	n/a	<p>Expenditure on grants and donations is not generally an area addressed by FRS 102 (other than in the context of funding commitments in Section 34 <i>Specialised Activities</i>). Furthermore, this is not an area of accounting where we have received feedback from stakeholders that more specific guidance for PBEs is required. Therefore, our comments in respect of Question 5 are limited.</p> <p>We note that the term 'grant expenses' is in bold in paragraph 24.1, but there is no clear definition of this term in Section 24, nor in the Glossary. We think it is potentially ambiguous to the reader whether the terms 'expenses on grants' and 'grant expenses' refer to the actual amount granted to the recipient, to the costs of administering the grant, or both. It is not clear in Section 24 whether grant expenses incurred by a grant-providing entity would include all expenses incurred in the administration of the EGA, EGO or OFA.</p>
a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements <sup>3</sup> . Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?	G24.3-G24.4, G23.23-G23.30,	Please refer to our comments on Question 4(a) above.

<sup>3</sup> Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

<p>b) Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as an other funding arrangement? If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?</p>	<p>G24.3-G24.6</p>	<p>FRS 102 does not contain any requirements in relation to expenditure on grants and donations. In principle, we agree that expenses on grants and donations should be classified as either EGAs or OFAs, however, as outlined in Question 4(a) the terms have not been well-defined and therefore may pose issues in practical application.</p> <p>Please also refer to our response to Question 4.</p>
<p>c) Enforceable grant arrangements are required to be enforceable through legal or equivalent means. Do you agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to these mechanisms?</p>	<p>G24.3, AG24.9, AG24.13-AG24.15</p>	<p>We are not able to comment on the practical mechanisms; however, we agree in principle that constructive obligations can arise from EGAs that should be recognised in the financial statements.</p>
<p>d) Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a grant-provider not recognise the full expense and what is the rationale?</p>	<p>G24.17-G24.18, AG24.24-AG24.27</p>	<p>In principle we agree with the proposed accounting in respect of multi-year funding grants provided by the grant-providing NPO.</p> <p>FRS 102 does not provide any PBE-specific requirements in this area, except in the context of funding commitments as set out in paragraphs 34.57 to 34.63 of FRS 102. Paragraph 34.59 states:</p> <p><i>An entity shall recognise a <b>liability</b> and, usually, a corresponding <b>expense</b>, when it has made a commitment that it will provide resources to another party, if, and only if:</i></p> <p><i>(a) the definition and <b>recognition</b> criteria for a liability have been satisfied;</i></p> <p><i>(b) the obligation (which may be a <b>constructive obligation</b>) is such that the entity cannot realistically withdraw from it; and</i></p> <p><i>(c) the entitlement of the other party to the resources does not depend on the satisfaction of <b>performance-related conditions</b>.</i></p>

		The Charities SORP, in paragraphs 7.17 to 7.24, provides more guidance on multiple year grant expenditure made by the grant-making body.
e) Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead?	AG24.30-AG24.35	FRS 102 contains no requirements in respect of either capital or revenue grant expenditure incurred by an entity, and therefore makes no distinction between accounting for revenue or capital grant expenditure.
f) Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?	G24.32-G24.41	<p>FRS 102 does not contain any requirements in this area. However, when grant expenditure is material, the general requirements of paragraph 5.9A of FRS 102 would require separate disclosure.</p> <p>We understand that in some limited circumstances a grant-providing NPO may not wish to disclose sensitive information about its grant expenses for various reasons, such as an expected adverse impact on the well-being of its workforce or where there is potential that the information poses a risk to the NPO and its individuals being a target and victim of fraud.</p> <p>There is guidance in the Charities SORP in paragraphs 16.21 to 16.22. For example, when grant expenses disclosure could result in serious prejudice to the grant-maker or serious personal injury, the SORP permits a similar exemption on the grounds of disclosure being seriously prejudicial.</p> <p>Similarly, for provisions and contingencies, paragraph 21.17 of the <i>IFRS for SMEs</i> Accounting Standard permits an entity not to make all of the disclosures that would usually be required when, “in extremely rare cases, disclosure of some or all of the information ... can be expected to prejudice seriously the position of the entity in a dispute with other parties”.</p> <p>In summary, although we sympathise with the arguments for a sensitive information exemption, and understand why you may be minded to make such an exemption available, we believe that the Authoritative Guidance and the Basis for Conclusions in</p>

		paragraph BC24.47 should set a clear expectation that such an exemption would only be appropriate in very limited circumstances.
g) Do you agree that a grant-providing NPO with an OFA can only recognise an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided? If not, what would you propose instead?	G24.11	<p>In principle we agree, but add that the recognition of an asset by the grant-providing NPO should require there to be a present economic resource controlled by the NPO as a result of past events. The proposed paragraph 24.11 is overly simplistic and may potentially be misleading as it omits this principle as it requires that “the grant-providing NPO will <i>only</i> [emphasis added] recognise an asset where the failure to satisfy the requirements creates a present obligation for the grant recipient”.</p> <p>The recognition of an asset by the grant-providing NPO should take into account all the facts and circumstances, including whether the grant recipient is able to make the repayment of any clawback of funding.</p> <p>Paragraph G24.11 fails to consider the circumstances in which it may be appropriate for the grant-providing NPO to disclose a contingent asset rather than recognise an asset. We suggest that Section 24 is expanded and that a cross reference to paragraph G21.14 is made to provide guidance on when a grant-providing NPO may need to disclose a contingent asset.</p>
h) Do you have any other comments on the proposals in Section 24, including that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation but a means to identify or report on resources. If so, provide the rationale for any comments and cross reference to the relevant paragraph.	Section 24  IG24.21	<p>In principle we concur that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation.</p> <p>Paragraph 34A.5 of FRS 102 (in Appendix A <i>Guidance on funding commitments (paragraphs 34.57 to 34.63)</i> to Section 34 <i>Specialised Activities</i>) states:</p> <p><i>A commitment may contain conditions that are not performance-related conditions. For example, a requirement to provide an annual financial report to the grantor may serve mainly as an administrative tool because failure to comply would not release the grantor from its commitment.</i></p>

		Please also refer to our response to Question 4(h) above which addresses this topic area more generally.
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**Question 6: Borrowing costs**

**INPAG Section 25** specifies the accounting for borrowing costs. There are no significant changes with modifications made to align with other sections.

	<b>References</b>	<b>Response</b>
a) Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out the alignment changes you believe are required.	Section 25	FRS 102 does not include any PBE-specific requirements in Section 25 <i>Borrowing Costs</i> , and we agree that there are no significant alignment changes required.

**Question 7: Share-based payments**

**INPAG Section 26** specifies the accounting for share-based payments. As share-based payment transactions are considered highly unlikely for NPOs this section has been removed and a paragraph included to explain why it is not part of INPAG.

	<b>References</b>	<b>Responses</b>
a) Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.	Not applicable	<p>FRS 102 does not include any PBE-specific requirements in Section 26 <i>Share-based Payments</i>. Accordingly, Section 26 applies to any PBE that is party to share-based payments, although we would expect those transactions to be uncommon.</p> <p>We are aware of some mutual societies that provide employee share schemes. If those types of organisations are intended to be within the scope of the definition of an NPO then it may be useful to include requirements for them to apply.</p> <p>Note that in our response to question 2a) of ED1 we commented on some ambiguities in the proposed drafting about whether distribution for private benefit (which can be a feature of mutual societies) could mean that an entity is not an NPO. In FRS 102, an entity that exists primarily to provide economic benefits to its investors is not a PBE. Examples include organisations such as mutual insurance companies, other mutual co-operative entities and clubs that provide dividends or other economic benefits directly and proportionately to their owners, members or participants<sup>4</sup>.</p> <p>An alternative approach, if in your view share-based payments would be used by some, but only a small minority of, NPOs could be to refer directly to Section 26 of the <i>IFRS for SMEs Accounting Standard</i>. As a similar example, in FRS 102 we directly reference IFRS 6 <i>Exploration for and Evaluation of Mineral Resources</i> rather than leaving preparers free to use the hierarchy in Section 10 to develop accounting policies for 'exploration and evaluation expenditure' within the scope of IFRS 6; this means that entities that are affected will prepare financial statements in accordance with the requirements of a specific standard, rather than perhaps choosing different accounting policies.</p>

<sup>4</sup> Refer to footnote 62 to the glossary definition of 'public benefit entity' in Appendix I to FRS 102 (2022 edition).

**Question 8: Employee benefits**

**INPAG Section 28** covers all forms of consideration given by an employing NPO to its employees. Changes have been made to this Section to remove references to share-based payments and to profit-sharing arrangements as these are not expected to be part of NPO remunerations structures. Amendments describe how a controlling NPO providing benefits to employees of controlled entities in the group can apply its provisions.

	<b>References</b>	<b>Responses</b>
a) Do you agree that profit sharing and share-based payments are removed from Section 28 <i>Employee benefits</i> to reflect that employees of NPOs are very unlikely to be incentivised by sharing in the surpluses made by an NPO? If not, provide examples of such arrangements used by NPOs.	G28.3, G28.27	If the definition of 'NPO' is intended to include societies that share benefits with members, for example co-operatives, there does not seem to be anything preventing employees of an NPO being members of the NPO and sharing in those surpluses (also see question 7).
b) Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?	G28.21	We do not agree because, as we said in our response to ED1 <sup>5</sup> , we do not agree with the proposal to remove the concept of Other Comprehensive Income (OCI), with items that would have been OCI recognised directly in the Statement of Changes in Net Assets. That proposal mixes items of performance with equity transactions. The two-statement (Statement of Other Comprehensive Income and Income Statement) approach is an established solution to dealing with the presentation of unrealised gains and losses.

<sup>5</sup> For example, see Question 7: [https://media.frc.org.uk/documents/FRCs\\_Response\\_to\\_IFR4NPOs\\_Exposure\\_Draft\\_International\\_Non-Profit\\_Accounting\\_Guidance\\_Part\\_1.pdf](https://media.frc.org.uk/documents/FRCs_Response_to_IFR4NPOs_Exposure_Draft_International_Non-Profit_Accounting_Guidance_Part_1.pdf)



### Question 9: Income tax

**INPAG Section 29** addresses the accounting for income tax including current and deferred tax. Minor editorial amendments have been made to align with other Sections. Amendments include the removal of the exclusion relating to government grants as this is now replaced, and to allow the tax expenses to be shown in the Statement of Income and Expenses or Statement of Changes in Net Assets as appropriate.

	References	Responses
Are there any elements of Section 29 <i>Income taxes</i> that are not required by NPOs? If so, explain which elements are not needed and why.	Section 29	<p>We think that all elements of INPAG Section 29 could be relevant for an NPO that is liable to income tax, although an NPO would only need to apply the requirements that are relevant to its own transactions and balances. The requirements could also be relevant when an NPO group has a trading subsidiary and is preparing consolidated financial statements.</p> <p>Overall, we note that the accounting for income tax interacts with specific jurisdictional requirements and therefore it may be necessary for the INPAG Guidance to highlight this.</p> <p>We have included some specific requirements in FRS 102 which are relevant to profit-oriented entities within a PBE group. Paragraph 29.14A of FRS 102 requires, in some circumstances, an entity to recognise the income tax effects of a future payment that qualifies for gift aid<sup>6</sup> at the reporting date, rather than in the future when the payment is made. The effect is that the gift aid tax relief is recognised at the same time as any related tax charge and is therefore offset in profit or loss. We think that this approach provides more relevant information to users of the financial statements, and we are aware of similar schemes in countries other than the UK that may mean the issue warrants consideration in INPAG.</p>

<sup>6</sup> <https://www.gov.uk/government/publications/charities-detailed-guidance-notes/chapter-3-gift-aid#chapter-311-gift-aid-for-companies>

**Question 10: Foreign currency translation**

**INPAG Section 30** describes how to include foreign currency transactions and foreign operations in the financial statements. This Section has been amended to require that the exchange rate gains or losses on monetary items are presented consistently with the transaction to which they relate.

This Section also requires that deficits or surpluses arising as a consequence of changes in exchange rates for grant arrangements that are included as part of funds with restrictions are disclosed. This is to provide transparency of exchange rate exposures relating to grant arrangements.

	References	Response
a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?	G30.3 (c), G30.5 (b), G30.5 (d)	Yes, we agree. Paragraph 30.2 of FRS 102 states that an entity's functional currency is the currency of the primary economic environment in which the entity operates, and paragraph 30.3 states that the primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. Given the importance of grants and donations to an NPO, we agree that they are relevant when determining its functional currency.
b) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?	G30.12, G30.20 (c)	We agree in principle that the presentation of exchange rate gains or losses should be consistent with the presentation of the item to which the gain or loss relates. Taking this approach for fund accounting would be equivalent to the requirement in paragraph 30.11 of the <i>IFRS for SMEs</i> Accounting Standard (and of FRS 102) for exchange components of gains and losses to be presented in the same statement as the gain or loss itself.  In our response to question 3a) of ED1, we said we thought that all transactions are categorised as either 'with restrictions' or 'without restrictions'. However, if you proceed with plans for 'funds with restrictions' and 'funds without restrictions' to be components of 'net assets' alongside other elements then there could be exchange rate gains or losses that are attributable to those other elements.
c) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with	G30.30	We do not agree. Any exchange rate gain or loss on an individual grant arrangement would contribute in some way to a deficit or surplus on that arrangement, and so would require disclosure under paragraph G30.30. We think it would be more proportionate, and clearer to a reader of INPAG, to include disclosure requirements for amounts of

<p>restrictions to be disclosed? If not, why not? What would you propose instead?</p>		<p>exchange rate gains and losses alongside the disclosure requirements for other movements. So the requirement to provide:</p> <ul style="list-style-type: none"> <li>- details of the gain or loss in the period could instead be included as a line item in the reconciliations required by paragraphs G6.3 and G6.4 (as set out in ED1); and</li> <li>- the cumulative amount of exchange rate gains and losses could be included as a part of paragraphs G4.14 or AG4.5 (as set out in ED1).</li> </ul> <p>Alternatively, in both cases above, the specific disclosure requirements of fund accounting that will be set out in Section 36 (to be exposed in ED3) could provide a suitable location for those disclosure requirements.</p> <p>Including the disclosure requirement in those other places would allow an NPO to utilise the materiality concepts embedded there (for example paragraph G6.4 only requires reconciliations for material sub-components of net assets), which would mean an NPO might aggregate exchange gains and losses that contribute to surpluses or deficits on grant arrangements together, rather than disclosing exchange rates gains and losses on every grant arrangement individually. We think this would be more proportionate than requiring disclosure in all cases.</p>
<p>d) Do you have any other comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with foreign currency translation? If so, explain your comments and the NPO-specific recognition and measurement issues.</p>	<p>Section 30</p>	<p>FRS 102 does not include any PBE-specific requirements in Section 30 <i>Foreign Currency Translation</i>.</p> <p><u>Application Guidance</u></p> <p>There is a substantial amount of duplication between the main guidance of proposed Section 30 and its Application Guidance that we think could be confusing to the reader, especially when concepts are described using different words that may be read as having a different meaning. We are also not sure that all of the Application Guidance is consistent with the requirements of other sections of INPAG. We have set out a few examples below, but a more thorough analysis may be required.</p> <p>(i) Paragraph AG30.16 may need revisiting when Section 17 is considered as part of ED3 because the revaluation model in Section 17 of the <i>IFRS for SMEs Accounting Standard</i> does not require revaluations to be carried out</p>

		<p>at the end of every reporting period. It may be simpler to delete the last sentence of paragraph AG30.16 so that it is consistent with paragraph G30.10(c).</p> <p>(ii) We think the reference to “grant arrangement assets” in paragraph AG30.17 should be to “grant prepayment assets”.</p> <p>(iii) We think that paragraph AG30.17 needs to identify more clearly which of the parties referred to in respect of a grant arrangement liability or a grant prepayment asset is the reporting NPO. The conclusion that these items are non-monetary is dependent on the perspective adopted.</p> <p>(iv) For paragraph AG30.18, we are not sure that an increase in an EGO, or a new obligation under an EGA, would always result in the contract becoming onerous.</p> <p>(v) We are not sure that paragraphs AG30.19 and AG30.20 are necessary because a change in the transaction price due to exchange rates would already be accounted for as ‘variable consideration’ under Section 23.</p> <p>(vi) We are not sure that the first sentence of paragraph AG30.21 is consistent with the second sentence. It may be appropriate to revisit, as part of ED3, universal guidance about when and how an NPO should close down a restricted fund and transfer any remaining balance to ‘funds without restrictions’.</p>
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**Question 11: Hyperinflation**

**INPAG Section 31** describes the requirements where an NPO is operating in a hyperinflationary economy. Minor editorial changes, including those relating to the structure and names of the financial statements have been made.

	<b>References</b>	<b>Responses</b>
a) Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required.	Section 31	Yes, we agree. FRS 102 does not include any PBE-specific requirements in Section 31 <i>Hyperinflation</i> .

**Question 12: Events after the end of the reporting period**

**INPAG Section 32** sets out the principles for recognising, measuring and disclosing events that happen after the end of the reporting period. Minor amendments have been made to include grant providers as a source of bankruptcy, to remove some references including to profit sharing and dividends. Those with the power to amend the financial statements after they have been issued has also been widened given the nature of NPOs.

	<b>References</b>	<b>Responses</b>
a) Do you agree that there are no significant changes required to Section 32, other than those that have already been made for alignment purposes? If not, describe any further alignment changes required.	Section 32	Yes, we agree. FRS 102 does not include any PBE-specific requirements in Section 32 <i>Events after the End of the Reporting Period</i> .

## General Feedback

Please share any other comments that you wish to raise on Exposure Draft 2. When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.

### 1. Our response to ED1 and follow up

This response should be read in conjunction with our response to ED1 because in this response we have generally not repeated more general comments about the scope, structure, and content of INPAG.

Many of the comments we made in response to ED1 would also apply to ED2. For example:

- We think that there should not be separate authoritative Guidance and authoritative Application Guidance. The current drafting approach has led to duplication, and it is not always obvious why some matters are Guidance and others are Application Guidance.
- There is some ambiguity over the definition of an 'NPO' and the entities intended to apply the guidance, which makes it difficult to comment comprehensively on some matters.
- In general, we recommend caution about replacing established terms and concepts from the *IFRS for SMEs* Accounting Standard without clear benefit. This is particularly important because INPAG is intended to apply to a broad range of legal forms, and whilst some concepts are expected to be uncommon for NPOs (for example, non-controlling interests or equity claims more generally), the scope of the Guidance does not preclude them.
- We do not agree with the proposal to remove the concept of Other Comprehensive Income (OCI), with items that would have been OCI recognised directly in the Statement of Changes in Net Assets. The proposal mixes items of performance with equity transactions. The two-statement (Income Statement and Statement of Other Comprehensive Income) approach is an established solution to dealing with the presentation of unrealised gains and losses. If an NPO had no relevant items, it would not be required to present OCI in any case.

### 2. Proportionality and understandability

We think that NPOs are likely to be, at best, no better resourced than profit-oriented entities and therefore have the same, or arguably a larger, need for proportionate accounting standards that are

	<p>simple to apply in practice. This is supported by the stakeholder feedback that we often hear as part of our development of PBE requirements in FRS 102.</p> <p>The proposals set out in ED2 contain a significant amount of terminology, in particular the use of several terms and concepts which are not clearly defined, such as OFA, and grant expenses, and therefore may be confusing for practitioners to apply.</p> <p>We consider that INPAG in its current proposed form is not easy to navigate and is overly complex. There is a risk that INPAG will not serve its purpose and core objectives in creating a standard that improves the quality and transparency of financial reports if it is overly complicated. In its current form, it seems likely that INPAG becomes a more complicated framework than the foundational framework on which it is based.</p> <p>In closing remarks, we wish to commend the significant efforts of those working on this project and the achievement of getting to this milestone which should not be underestimated and welcome this opportunity to provide our feedback and comments. Whilst we do appreciate that at this stage of the project the ability to address our feedback and comments will be limited, we recommend that in finalising INPAG, the need for proportionality and understandability remain at the forefront.</p>
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