INTERNATIONAL FINANCIAL REPORTING
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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 or through the website at www.ifr4npo.org/have-your-say

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Respondent information:

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Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	**Tick boxes** Agree Disagree

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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

Specific Matters for Comment

Question 1: Financial instruments **INPAG Section 11** 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.		
	References	**Response**
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	**Section 11 of INPAG has been drawn from Section 11 of the IFRS for SMEs Accounting Standard, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 11 of the draft Third edition of the IFRS for SMEs Accounting Standard and Section 11 of INPAG are as follows:** **• Any references to share-based payments have been removed from this section, as it is proposed that a section on share-based payments is not included in INPAG.** **• INPAG Section 11 uses different terminology, referring specifically to NPOs rather than entities more generally, and to other sections of INPAG rather than the IFRS for SMEs Accounting Standard.** **• The examples provided in Section 11 of the draft Third edition of the IFRS for SMEs Accounting Standard have been relocated to the INPAG Implementation Guidance. Examples of monetary assets and liabilities arising from binding grant arrangements have been added** **The comparison between Section 11 of the INPAG and the draft Third edition of**

		the IFRS for SMEs Accounting Standard highlights a nuanced approach to tailoring financial reporting standards to the specific needs of Non-Profit Organizations (NPOs). This adjustment is manifest in several critical aspects, including the exclusion of share-based payments, terminological adjustments to better reflect the operational reality of NPOs, and the strategic relocation and augmentation of examples to an implementation guidance framework, enhancing relevance and clarity for NPOs. **The decision to remove references to share-based payments from Section 11 acknowledges the operational and transactional nuances typical of NPOs, which are less likely to engage in share-based transactions. While this simplification may streamline reporting requirements for many NPOs, it necessitates careful consideration of how such transactions, albeit rare, would be accounted for should they arise within the NPO sector. Guidance, potentially within a supplementary section or an expanded implementation guidance document, would be instrumental in bridging this gap, ensuring NPOs are equipped to report such transactions transparently and consistently.** **Adjustments in terminology, specifically the transition to terms that resonate more directly with the NPO sector, are commendable for enhancing the accessibility and applicability of the standard. This shift, however, introduces a critical need for clarity to prevent potential ambiguities that might arise from the departure from the more universally recognized IFRS lexicon. To this end, a comprehensive glossary or a detailed cross-referencing system could serve as**

		valuable tools for entities navigating between these standards, ensuring the continuity of understanding and consistency in application. **The relocation of examples from the main body of the standard to an implementation guidance document, coupled with the introduction of NPO-centric examples, represents a strategic enhancement of the standard's utility and applicability to NPOs. To maximize the benefit of this approach, it is imperative that these examples are not only illustrative of the principles outlined in Section 11 but also reflective of the breadth of scenarios NPOs may encounter. This ensures that the guidance remains a robust resource capable of facilitating accurate and consistent application across varied and evolving financial landscapes.** **In conclusion, while the adjustments made to Section 11 of INPAG in alignment with the unique requirements of NPOs are to be lauded for their intent and direction, careful attention must be paid to ensuring these changes foster clarity, consistency, and comprehensive coverage of financial reporting needs.**

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 *Inventories* to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?	G13.1	**The expansion to specifically include inventory held for use internally, for fundraising, or distribution is indeed a significant improvement. It acknowledges the unique operational models of NPOs, which often handle goods not for sale but for fulfilling their mission. Such specificity ensures that the accounting standards better cater to the reality of NPO operations, promoting more accurate and transparent financial reporting.**
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)	**The introduction of permitted exceptions for certain donated inventories and work-in-progress that comprises services provided at no or nominal cost is a practical acknowledgment of the unique challenges faced by NPOs in inventory valuation. This approach pragmatically addresses the difficulty of assigning a monetary value to such items, potentially simplifying the accounting process while ensuring that financial statements do not misrepresent an NPO's operational health. An alternative approach could involve detailed note disclosures regarding these items, thereby maintaining transparency without necessitating balance sheet recognition.**

c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	G13.7	**Adopting fair value as the standard for valuing donated inventory aligns with the principle of accurately reflecting the resources available to an NPO at the time of receipt. This method ensures that an NPO's financial statements accurately depict its asset base, promoting comparability and transparency across the sector. Should an alternative be considered, using a nominal value might offer simplicity but at the risk of undervaluing these assets, potentially distorting the NPO's financial position.**
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 cost? If not, what would you propose instead?	G13.8	**The guideline to measure inventory for distribution or internal use at the lower of cost or replacement cost, considering any decrease in usefulness, is sensible. It ensures these items are not overvalued on the books, given they're not sold for profit but are crucial for the non-profit's work. Thinking about alternatives, it might be tricky to factor in social or environmental benefits without complicating accounting further.**
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	**The new disclosure requirements, especially about exceptions used and challenges in valuing donated inventory, will make non-profit financial reporting more transparent. This means people can understand the financial statements better, seeing exactly how non-profits manage and value their inventory. Providing even more details on how they estimate the value of donations or why some items can't be measured could offer further clarity.**

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	**We agree with the decision to replace the example on warranties with one on onerous contracts in the Implementation Guidance.** • **Relevance to NPOs: NPOs are more likely to deal with onerous contracts than issues related to warranties. Onerous contracts can arise in various situations that are common in the nonprofit sector, such as service agreements that become too costly. In contrast, warranties are typically related to the sale of goods, which might not be as relevant to many NPOs.** • **Practical Help: An example on onerous contracts can provide practical help to NPOs in dealing with complex agreements that have become burdensome. This guidance can help NPOs better understand how to recognize and measure these types of contracts.** **Focusing on onerous contracts makes the guidance more useful for the specific situations NPOs often face.**

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.

	References	**Response**
a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements[1]. Do you agree with the terms enforceable grant arrangement	G23.23-G23.30, G24.3-G24.4	**The introduction of the terms Enforceable Grant Arrangement (EGA) and Enforceable Grant Obligation (EGO) provides a clear framework for NPOs to assess and recognize grant-related revenue. These terms help distinguish between different types of grant revenue, specifically those with enforceable**

[1] Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

	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?		**obligations versus those without. Practical considerations may include the need for NPOs to establish processes for identifying and documenting EGAs and EGOs, which could require additional administrative effort**
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?	Section 23	**The structure, dividing revenue into grants and donations (Part I) and contracts with customers (Part II), with a preface summarizing key principles, seems to logically separate revenue sources for NPOs. This clear identification and separation helps NPOs navigate the guidance more efficiently, ensuring the appropriate recognition criteria are applied to different revenue streams.**
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?	G23.27, G23.41-G23.59	**Agreeing that revenue should only be deferred when there is a present obligation aligns with the principle that revenue should be recognized when control of the promised goods or services is transferred to the customer. Other circumstances for deferring revenue might involve performance-related conditions or time-based restrictions, where revenue recognition is contingent upon meeting specific milestones or passing a certain time period.**
d)	The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is	G23.53-G23.56, G23.125-G23.138,	**The allocation methods identified for EGAs requiring allocation across multiple EGOs appear reasonable, aiming to reflect the transaction's economic substance accurately. Practical considerations might involve determining the stand-alone**

	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?	AG23.52-AG23.59	**value of each obligation, which could be complex for NPOs with less straightforward EGAs.**
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	**The permitted exceptions seem practical, especially for lower-value items or where the cost of complying with strict recognition criteria exceeds the benefits. However, not allowing these exceptions for EGAs might be restrictive for some NPOs, we are suggesting a need for flexibility based on the nature of the gift and its impact on the NPO's operations.**
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?	G23.36, G23.38, G23.63, AG23.35-AG23.36	**Excluding non-mission-critical services from recognition unless they significantly contribute to the NPO's operations simplifies accounting treatment. However, this could lead to underreporting the value of contributed services that, while not critical, still provide considerable benefits to the NPO.**
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?	G23.31-G23.32, G23.35-G23.38	**Measuring donations in-kind at fair value is consistent with the principle of reflecting the true economic benefits derived from the gifts. Challenges may arise in accurately valuing certain services or non-standard goods, requiring judgment and potentially external valuations.**

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h) Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.	G23.49	**Simplifying the approach by not counting regular admin tasks as part of the key duties (obligations) for grants makes things simpler for nonprofits. These tasks, like writing progress reports or keeping track of grant finances, support the main work but aren't the main reason the grant was given. However, there are exceptions where specific admin tasks are crucial and closely tied to a grant's goals.** **Examples:** • **Compliance Checks: If a grant says you must meet certain rules or standards, then the work you do to make sure you're following these rules could be very important. For instance, you might need to do special audits or keep certain certifications up to date as part of the grant's conditions.** • **Reporting Results: For grants focused on creating a big impact or research, how you report on what you've achieved is important. If you must give detailed reports on the outcomes or the difference your project is making, these tasks might be seen as part of your core obligations under the grant.** • **Handling Data Carefully: When working with sensitive information or certain groups of people, how you manage data and protect privacy can be key. If the grant has strict rules on data privacy or ethical guidelines,**

		following these rules could be seen as a direct responsibility tied to the grant. **It's important for nonprofits to go through their grant agreements carefully to identify which admin tasks are just part of everyday operations versus those that are essential for meeting the grant's goals. In some cases, completing these critical admin tasks might be directly linked to recognizing revenue from the grant, reflecting the true progress and work done as part of the grant's requirements.**
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?	G23.61-G23.70	**The proposed requirement for nonprofits to disclose detailed information about their grant revenue aims to increase transparency and give a clearer picture of where their income / donations comes from and how it's recognized. This includes breaking down revenue into categories, explaining when and how income is recognized, and any conditions tied to the grants.** • **Why It Matters: For anyone looking at a nonprofit's financial statements, such as donors, members, or regulators, understanding the source of grant revenue is crucial. It helps them see how dependent the organization might be on certain grants and assess the stability of its funding.** • **Breaking Down Revenue: By showing revenue in categories, nonprofits can illustrate the diversity of their funding sources. This breakdown can**

		reveal, for example, how much comes from government grants versus private donations or how income is spread across different programs. • **Timing and Conditions: Disclosing when grant revenue is recognized (immediately, over time, or upon meeting specific conditions) offers insights into the organization's financial health and its future cash flow. It also helps explain why certain funds might not be available for use immediately, even if they've been received.** • **Complex Grants: For more complicated grants, especially those with specific spending requirements or milestones, additional information might be needed in the disclosure. This could include explanations of how revenue recognition aligns with project progress or how unmet conditions might affect future funding.** **The goal of these disclosures is to make it easier for people to understand a nonprofit's finances, specifically around grants. By providing this level of detail, nonprofits can demonstrate accountability and stewardship of the funds they receive, building trust with donors, regulators, and the public. This approach ensures that stakeholders have a good understanding of the financial health and sustainability of the nonprofit.**
j) Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with	G23.42-G23.59, G23.73, AG23.37-	**The approach taken in Section 23 to differentiate between simpler grant arrangements and more complex ones, and then providing additional guidance**

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?	AG23.40, AG23.62	**on applying Part II for complex grant arrangements, aims to streamline the process for Non-Profit Organizations (NPOs).** **Flexibility and Clarity: By offering two levels of guidance, NPOs can navigate the rules more effectively. Simpler grants can be managed with less administrative overhead, while complex arrangements get the detailed attention they need. This dual approach recognizes the diverse nature of grants and the different levels of complexity involved.** **Ease of Use: For most grants, following the simpler set of guidelines in Part I should suffice, which helps NPOs save time and resources. When a grant does not fit neatly into these simpler guidelines due to its specific terms or conditions, NPOs can refer to the more detailed guidance in Part II, tailored for complex situations. This ensures NPOs have a clear pathway to follow, regardless of the grant's complexity.** **Application in NPO Context: The additional guidance on how to apply Part II in NPO contexts is crucial. It helps translate the more generic standards into something directly relevant to NPOs. This specificity can help reduce confusion and misinterpretation, ensuring that NPOs apply the standards correctly to their unique situations.** **The strategy of providing layered guidance based on the complexity of grant arrangements is a thoughtful way to address the varied needs of NPOs. It**

		balances the need for simplicity in standard situations with the necessity for detailed guidance in complex scenarios. By focusing on clarity, relevance, and the practical application of these standards, the guidelines can become an even more effective tool for NPOs navigating the complexities of revenue recognition.
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.		**Adopting the entire IFRS for SMEs standards for revenue might not be necessary or practical for Non-Profit Organizations (NPOs), given their unique operational and funding models. Tailoring the standards to focus on aspects directly relevant to NPOs—such as grants, donations, and service contracts—can simplify implementation, especially for smaller NPOs that may lack extensive accounting resources. Including NPO-specific examples and guidance, while continuously refining the standards based on feedback from the sector, can ensure the guidelines remain accessible and useful. This approach allows for a balance between comprehensive revenue recognition principles and the practical realities of NPO financial reporting, ensuring transparency and accountability without unnecessary complexity.**

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.		
	References	**Response**

a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements[2]. 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,	**The introduction of terms Enforceable Grant Arrangement (EGA) and Enforceable Grant Obligation (EGO) aims to clearly define the nature and enforceability of grant agreements in the non-profit sector.** **These terms are beneficial as they:** • **Provide clarity and specificity around the obligations and rights within grant agreements.** • **Highlight the enforceability aspect, which is crucial for recognizing liabilities and expenses.** **Practical considerations include the need for NPOs to assess and document the enforceability of grant agreements beyond traditional legal contracts, potentially requiring additional administrative effort.** **An alternative might not be necessary if these terms adequately capture the essence and enforceability of such arrangements.**
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	G24.3-G24.6	**Classifying all expenses on grants and donations as either EGA or Other Funding Arrangement (OFA) simplifies the accounting process and ensures consistency.**

[2] Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.

	grants or donations would not fit in either of these classes, and why not?		
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?	G24.3, AG24.9, AG24.13-AG24.15	**Accepting regulatory oversight and customary practices as sufficient for creating an EGA broadens the recognition of enforceable arrangements beyond strict legal contracts. This is particularly relevant in jurisdictions where formal legal processes are less prevalent or accessible. The weight applied to these mechanisms should be based on the predictability and consistency of enforcement outcomes they provide, which might vary significantly across different contexts.**
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?	G24.17-G24.18, AG24.24-AG24.27	**The principle that the full amount of the grant should be recognized as an expense if the grant-provider has no realistic means to avoid it is sound, as it reflects the substance over form. This approach ensures that financial statements reflect the economic reality of the organization's obligations. Situations where a grant-provider might not recognize the full expense could involve conditional grants where future conditions could alter the obligation.**
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	**Applying the same principles to capital purpose grants as other grants ensures consistency and simplicity in accounting practices. It recognizes the economic reality that the grantor's obligation doesn't change based on the use of the funds. Alternatives could complicate the accounting process and obscure the real economic effect of these transactions.**

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	**The proposal for disclosures, including a sensitive information exemption, strikes a balance between transparency and protection of sensitive information. It is appropriate, given the unique operational risks and challenges NPOs face. Guidelines or examples of what constitutes sensitive information could be included to ensure consistent application of the exemption. In addition we recommend a mandatory report to those charged with governance including the sensitive information.**
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	**Recognizing an asset only when a grant recipient has not complied with the use of funds constraint seems prudent, as it ensures assets are only recognized when there is a clear basis for recovery. An alternative approach might prematurely recognize assets without a clear basis for recovery, potentially overstating the NPO's financial position**
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	**Clarifying that administrative tasks in an EGA are not an EGO but a means to identify or report on resources helps distinguish between the obligations that contribute to the recognition of expenses and those that do not. This distinction ensures that the accounting treatment focuses on the substance of the grant arrangement's financial impact.**

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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.		
	References	**Response**
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	**This section mirrors the guidance found in the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs) but with adjustments to terminology and requirements to better suit NPOs.** **We agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made.**

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.		
	References	**Responses**
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	**NPOs do not have shareholders in the traditional sense. Their "owners" are typically members or stakeholders who do not seek to profit financially from the organization's operations. As such, the concept of equity-based compensation aligning interests between shareholders and employees is less applicable.** **Given these characteristics, the proposal to omit guidance on share-based payments from the International Non-Profit Accounting Guidelines (INPAG)**

		appears to be based on the premise that share-based payments are not a common or relevant form of compensation in the NPO sector. This omission could streamline the accounting standards and make them more tailored to the specific needs and practices of NPOs. **We agree that guidance on share-based payments is not required.**

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.

	References	**Responses**
a) Do you agree that profit sharing and share-based payments are removed from Section 28 *Employee benefits* 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	**We agree that profit sharing and share-based payments are removed from Section 28 Employee benefits to reflect that employees of NPOs are very unlikely to be incentivised by sharing in the surpluses made by an NPO.** **The decision to remove profit sharing and share-based payments from Section 28 regarding Employee Benefits in the context of Non-Profit Organizations (NPOs) makes logical sense for several reasons. Primarily, NPOs operate on a principle that fundamentally differs from that of for-profit entities; their primary goal is not to generate profits but to fulfill their mission, which is usually charitable, educational, scientific, or cultural. Consequently, the concept**

		of sharing surpluses or profits with employees through mechanisms common in for-profit entities, such as profit sharing or share-based compensation, is generally not aligned with the operational and financial structures of most NPOs. **However, it's important to acknowledge that while rare, there could be unique instances where certain types of NPOs might explore incentive mechanisms that resemble profit sharing or share-based payments. For example, an NPO focused on social entrepreneurship or one that operates income-generating activities to support its mission might investigate innovative compensation strategies to attract and retain talent. These could involve performance-based bonuses tied to the success of revenue-generating projects or similar initiatives. However, such arrangements are likely to be exceptions rather than the norm and could be structured in a way that aligns with the organization's non-profit status and mission.**
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	**The option to report changes in the value of post-employment benefits in either the Statement of Income and Expenses or the Statement of Changes in Net Assets is a practical approach. It gives Non-Profit Organizations (NPOs) the flexibility to choose the presentation method that best reflects their financial health and operational practices.** **This adaptability is valuable for NPOs because it allows them to decide the most effective way to communicate their financial performance and position to their stakeholders. For some organizations, incorporating these changes into the**

		Statement of Income and Expenses might make it easier to understand the organization's operating costs and overall financial performance. For others, detailing these changes in the Statement of Changes in Net Assets might better illustrate the impact on the organization's net assets over time, especially for those focusing on resource stewardship and long-term financial sustainability. **it's important for NPOs to ensure that their financial reports remain clear, consistent, and transparent, regardless of the chosen method, to maintain stakeholder trust and confidence.**

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**
a) Are there any elements of Section 29 *Income taxes* that are not required by NPOs? If so, explain which elements are not needed and why.	Section 29	**It's important to note that the applicability of this section largely depends on the specific circumstances of the NPO, including its size, complexity, tax status, and the jurisdiction in which it operates.** **While some elements may not be required for all NPOs, the guidelines provide a comprehensive framework to ensure that NPOs properly account for income taxes, reflecting the potential tax consequences of their transactions and**

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		events. **Section 29 of the guidelines, focusing on income taxes within the context of Non-Profit Organizations (NPOs), is comprehensive in addressing the accounting for income taxes, including both current and deferred tax considerations. It outlines how NPOs should recognize and measure these taxes in their financial statements, considering the unique aspects of NPO operations**

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)	**It makes sense to include grants and donations when deciding the main currency for a nonprofit organization (NPO). These funds are a big part of an NPO's income, influencing how it operates and manages their funds. Considering the currency of these funds ensures the financial statements accurately reflect the NPO's economic situation.**
b) Do you agree with the principle that exchange gains and losses are shown as	G30.12, G30.20 (c)	**The principle that money gained or lost from currency changes should be included in unrestricted funds, unless it's tied to a specific project with restrictions, is a**

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	part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?		**good approach. This way, it's clear how much money the NPO has that isn't earmarked for specific uses, and restricted funds are kept for their intended purposes.**
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 restrictions to be disclosed? If not, why not? What would you propose instead?	G30.30	**The proposal to require disclosure of exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions (G30.30) is beneficial for several reasons. It enhances transparency and accountability, allowing stakeholders to assess how currency fluctuations impact specific grant projects or activities. This could influence future funding decisions and grant management strategies.**
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.	Section 30	**This section offers thorough advice for NPOs on handling money in different currencies. However, it could be helpful to give more advice on managing donations in multiple currencies, especially when they're for projects in other countries. This situation can lead to financial risk due to changing currency values.**

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.		
	References	**Responses**

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	**We agree that the primary changes made to Section 31, focusing on terminology adjustments to cater specifically to Non-Profit Organizations (NPOs), adequately align it with the IFRS for SMEs Accounting Standard's principles on hyperinflation. The modifications seem to sufficiently address the distinct nature of NPO operations and reporting requirements without necessitating significant additional alignment beyond these terminological updates.**

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.		
	References	**Responses**
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	**The adjustments made to Section 32 for alignment purposes are sufficient and no significant changes are required.**

General Feedback	
Please share any other comments that you wish to raise on Exposure Draft 2.	**No further comments noted.**

When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.	