

MHA Comments on Invitation to Comment on INPAG Exposure Draft 2

Specific matters for comment

Question 1: Financial instruments References

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.

We agree.

Question 2: Inventories References

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?

We agree.

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?

The exceptions listed should be considered in the context of materiality. For example, even though donated items may be low in value individually, in some instances the aggregate value of all individual items can be highly significant to the NGO's statement of assets and liabilities. To not recognise them as inventory may not provide adequate accountability for the stewardship of these assets. We accept that there can be some significant estimation uncertainty in determining value, but this may be considered acceptable in order to provide increased transparency regarding the organisation's stewardship of the donated assets. As noted below we do however agree with the provisions of G13.26 and G13.27 to include a requirement for disclosure or in narrative reporting where exceptions are adopted.

c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?

We agree fair value seems appropriate.

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?

We agree.

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?

We agree.

Question 3: Provisions and contingencies References

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?

We agree that warranties seldom are entered into by NGOs but that onerous contracts do arise.

Question 4: Revenue References

a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements¹. 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?

See comments below.

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?

We agree with the separation of this guidance.

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?

We agree with the guidance.

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?

We agree with the enforceable arrangement guidance.

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

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?

We agree with these exceptions.

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?

We are concerned about the definition of ‘Mission Critical’ and the link to a material reduction in activity level. We consider that this will lead to services in kind which are significant for full understanding not being recognised. We consider that services in kind can be significant and, in many cases, can be reliably measured, so consider they should be recognised in those circumstances. The INPAG also needs to address where volunteer services should be recognised as often these are similar to professional services. Whilst we recognise that fair value is sometime difficult to determine or may lack reliability, this is still the most appropriate approach for consistency and comparability, if factors concerning estimation uncertainty are also disclosed.

We are also concerned with any reference to compliance costs exceeding benefits. This requires the comparison of one criterion which is relatively determinable with another which is hard to establish reliably, and there is a risk of insufficient justification.

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 propose instead?

We agree.

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.

We agree.

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?

Disclosure is appropriate. Except G23.70 – use of the term “significant” in the context of EGOs lack clarity. It would be better if this referred to “materiality” as a more clear concept.

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?

No comment.

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.

No comment.

Question 5: Expenses on grants and donations References

a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant

arrangements². 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?

We can see the merits of linking income recognition for recipients with expenditure recognition for grant providers but we are concerned that this risks being contrary to accepted definitions for assets and liabilities. For example, the term 'present obligation' is used in the context of the recipient's funding recognition but we consider it is the crystallization of the EGO not its existence which creates the rights and obligations of the EGA.

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?

The terminology in the ED is used for both grants and donations whereas we consider it is important to distinguish between institutional funding from an NGO or other institution from the funding from an individual or else between 'grant' and 'donations'.

We consider all institutional grant providing arrangements will be EGAs as the funder will have a corporate or stewardship responsibility for ensuring that the grant recipient makes proper use of the funds provided, which thereby creates the present obligation. Such an obligation may not exist for donations provided by individuals. The definitions of EGAs and OFAs therefore may need some further clarification.

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?

This is reasonable and the application of substance over form is appropriate, though does raise the risk of interpretation.

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 grantprovider not recognise the full expense and what is the rationale?

We agree.

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?

We agree.

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?

We agree.

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?

We agree based on the criteria of a present obligation.

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.

No further comments.

Question 6: Borrowing costs References

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.

We agree with this approach.

Question 7: Share-based payments References

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.

We agree this guidance is not required.

Question 8: Employee benefits References

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.

We agree with this removal.

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?

We agree with this approach.

Question 9: Income tax References

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.

We recognise that much of this section may not apply for many NGOs but for those where it is applicable the guidance is helpful.

Question 10: Foreign currency translation References

a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?

We agree.

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?

We agree.

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?

We agree where the amounts are material to the particular fund.

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.

No further comments.

Question 11: Hyperinflation References

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.

No comments.

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

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.

No comments.

MHA

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