**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](http://www.ifr4npo.org/exposure-draft-2)

Comments are most helpful if they:

1. Address the question asked;
2. Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
3. Propose alternatives for consideration, where responses are not in agreement with the proposal made;
4. Specify the INPAG paragraphs to which any comments relate; and
5. Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 12 question areas, 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/](http://www.ifr4npo.org/)have-your-say

**Respondent information:**

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| **First name:** | Nick | **Organisation:** (who do you work for) | RSM UK |
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| **Position:** | Partner, Head of Charities | **Professional interest:** please choose from:   * NPO, ie preparer of financial statements, * auditor, * accounting standard setter, * professional accounting organisation, * regulator of NPOs, * donor, * academic, * civil society, * user of NPO services, * other (please state) | Auditor |

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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. | Agree |

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**

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| **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** |
| 1. 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 | **It has been acknowledged in the proposal that some EGA or OFA revenue can be received over multiple years. In such scenarios, the time value of money should be considered in accordance with section 11, requiring the present value of the grant revenue to be calculated using a market rate of interest on a similar instrument. Many NPOs fund themselves through grant and donation income and do not take on external debt, and so determining a market rate of interest for them can be difficult. We suggest that a simplified method where a NPO does not have external borrowings be included, allowing such present values or other balances requiring discounting to be discounted at their investing rate instead.**  **Also, no simplifications to the expected credit loss calculations have been proposed. Accrued EGA and OFA revenue meet the definition of a financial instrument and so would therefore be subject to expected credit loss calculations. However, given the nature of the revenue, it is highly unlikely for there to be any risk of default on such balances. Therefore, we recommend simplifications are included in relation to these balances to prevent undue effort by users of INPAG.** |

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| **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** |
| 1. Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements[[1]](#footnote-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? | G23.23-G23.30, G24.3-G24.4 | **We agree that the terms are appropriate.** |
| 1. 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 preface to the section (G23.4-G23.7) is helpful in assisting users in identifying which part of the section they should be applying to a specific transaction.**  **However, to include details of the initial recognition in this preface (G23.7) seems to be oversimplifying the accounting and therefore could cause confusion.** |
| 1. 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 | **We agree that it is appropriate for revenue to be deferred where the grant recipient has a present obligation in relation to revenue received. The draft standard makes this clear in the case of EGAs. We question whether a similar principle should be included for OFAs e.g. to address scenarios where a constraint imposed by the donor of an OFA which is not (initially) capable of being overcome such as the spend being restricted to a particular jurisdiction that they do not currently, or intend to, operate in.** |
| 1. 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? | G23.53-G23.56, G23.125-G23.138, AG23.52-AG23.59 | **The SME standard requires the contract price to be allocated on the basis of its stand-alone selling price, i.e. the price for the customer rather than the costs incurred by the entity.**  **Whilst NPOs will not generally have selling prices and so the method of allocating based on costs incurred by the NPO may be the most straightforward and cost effective way of apportioning, we question whether there could be situations where allocating the grant based on the output method, or the benefit to the beneficiary, is more appropriate and therefore whether this option should be available under the standard. In this section, we propose that paragraph G23.55 is not needed, and could just cause confusion on this matter.**  **Under the current proposals, the NPO will allocate the total grant amount based on the costs it will incur in meeting the EGOs. In many scenarios, this will be an estimate based on labour and materials costs expected to be incurred. Users of INPAG may benefit from guidance addressing what they should do if estimated costs change over the period of the EGO, particularly where it spans multiple years.**  **Also, we note that the current proposal is silent on whether the estimated costs to satisfy the EGO to calculate the stand alone value should include direct costs only, or should also incorporate support costs allocated to the activity. We recommend guidance is provided.** |
| 1. 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 | **We note that the recognition of gifts in kind to be used by the NPO or distributed to beneficiaries can be delayed until they are used/distributed. However, under the proposals, eventual recognition is at fair value. We foresee there to be a cost vs benefit issue as many NPOs receive vast amounts of small donated items (not for resale) that the NPO would then have to fair value when they use/distribute them. For example, disaster relief agencies who receive donations of clothing and household items to be passed on to beneficiaries or animal welfare focused NPOs who receive donations of resources or food to be used in the care for animals. In the supporting webinar ‘Gifts in-kind exceptions – Donations of goods and other assets’, there is an exception referred to where an NPO is unable to reliably measure the value of the donated items and they are a small NPO responding to an emergency that lacks the resources to keep records for large volumes of donated items which are distributed almost immediately. In this scenario the NPO is exempt from recognising these donated items. This cost vs benefit exception appears to be available only in extreme cases, but would be a useful exception for a number of charities receiving a large number of small donations, as previously described. It is also unclear what the definition of a small NPO is. We also note that any such exception does not appear in the list of exceptions in the guidance (G23.37) in the standard.** |
| 1. 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 | **The current proposal states that all gifts in kind of services that are ‘critical’ should be recognised as revenue.**  **The term ‘critical’ is open to significant judgement as to whether the absence of the service or donation would materially impact the activities of the NPO. We propose an alternative benchmark to be gifts in kind of those services that the NPO would otherwise pay for, had they not been donated. This would demonstrate the benefit to the NPO and may therefore be more relevant to a user of the financial statements.**  **We note specifically that many NPOs rely on the support of unpaid volunteers to carry out vital functions in the NPO. However, reliably fair valuing staff time is a recognised issue in IFRS (hence an alternative method is provided, for example, to calculate the value of share based payments to employees rather than using the fair value of the service). We cannot see what additional benefit users of financial statements would obtain from an estimated value being attributed to volunteer time, rather than a narrative disclosure making clear the extent (number) of volunteers and their key roles in the business. The cost to do this for the NPOs, particularly when the number of volunteers reaches into the thousands would be excessive. Also, contention could arise where the contribution of volunteers has not been deemed to be business critical.** |
| 1. 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 | **We concur that including donations in kind at fair value is appropriate. However, we reserve further comment until the guidance is drafted providing additional narrative on how fair value for donations in kind should be derived.** |
| 1. 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 | **We agree that administrative tasks wholly within the control of the entity should not constitute separate EGOs.**  **However, if an EGO contains a significant administrative task that is not wholly within the control of the entity, for example obtaining a patent which would have to be approved by a patent office or obtaining Governmental permission, this could constitute an EGO.**  **Therefore, we would recommend that the guidance provides the caveat that the administrative activity is wholly within the control of the entity.** |
| 1. 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 | **Additional disaggregation between cash, gifts and services is only proposed for OFAs. We consider that a similar level of disaggregation would be appropriate for EGAs.**  **Also, with respect to gifts and services in kind not recognised, we consider that it be more beneficial to users of the financial statements to have a narrative disclosure as to the types and quantum of donations in kind not recognised, rather than an estimated value. Encouraging NPOs to determine an estimated fair value may actually discourage them from making the disclosure rather than encouraging the disclosure of readily available information.** |
| 1. 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 | **Whilst it is appreciated that the authors of INPAG have attempted to avoid duplication between part 1 and part 2, it does make it very confusing to read and apply due to having to keep referring to both parts for a section. In the preface (G23.4-G23.7) where it explains which scenarios each of the sections should be used for, this is not referred to, although it is later on (G23.11). There is a risk that these elements of the standard are not appropriately applied as a result.**  **In addition, there are some elements that are only covered in part 2 of the section that are not only relevant for complex grants. For example, whether EGOs are satisfied over time or at a point in time is a consideration that should be made for every grant and therefore, this guidance should also be included in part 1.**  **Overall, the way that the parts have been written to avoid duplication causes confusion for the user in determining which elements they should be considering and applying.** |
| 1. 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. |  | **It is appropriate for the IFRS for SMEs standard to be included to or referred to in INPAG, as there are a number of NPOs who also enter into revenue contracts with customers as part of their activities, and this standard should therefore be applied.**  **Our comments on other areas include:**   * **Paragraph G23.42-G23.43 – This provides separate analysis where there is only one EGO in a grant agreement. Whilst we appreciate that this has been included to provide simplicity for users, it may be over simplified. For example, in step 2 of identifying the EGO, there is comment that detailed analysis may not be required. However, analysis should be performed to ensure that there is only one EGO included in the agreement. This step should not be skipped just because it is the NPO’s understanding that only one NPO exists.**   **Equally for step 3 it states no analysis is required as the transaction amount is the total amount of the grant. However, this single EGO grant agreement could still include variable consideration and so this step should still be performed to ensure the grant is recognised at an appropriate amount.**  **Therefore, our recommendation is that this simplified step is not included and NPOs are encouraged to go through each of the five steps for every EGA.**   * **Paragraph G23.50 – For an EGO to be separately accounted for, it has to meet the following conditions:**    1. **The outcome should be capable of being separated from other outcomes, and**   2. **The resources required should be capable of being separated from other resources required by the EGA.**   **Additional clarity could be added to provide guidance on what is meant by the resources being separable. In many instances the same members of staff and assets will be used for various grant agreements and various EGOs within those agreements, even when the outcomes or activities are very clearly distinct from each other.**   * **The layout of the section is confusing for a user of INPAG to follow. The initial guidance is difficult to digest, even when the user has watched the webinars that accompany the exposure draft. Part of the reason for this is that a lot of explanations/ guidance are located at the end of the section. It may be beneficial to embed these in the main body of the section.** |

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| **Question 5: Expenses on grants and donations**  **INPAG Section 24** is new and covers accounting for expenses. Part 1of 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** |
| 1. 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 | **We consider that legal opinion should be sought on this matter particularly and the impact of potential jurisdictional differences considered.** |
| 1. 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 | **Yes, as that is the amount the grantor has an obligation to pay.**  **In relation to the timing of recognition we note that for EGAs the grant recipient has to have met their obligations for the grant to be recognised as an expense in the books of the grantor. However, whether the recipient meets their obligations is out of the grantor’s control and therefore we question whether this is appropriate. From a practical perspective, there could be an unwarranted time delay in recognition if the communication is not timely from the grant recipient.**  **We also note that re OFAs there is one example provided as to what might constitute a constructive obligation but it is very specific. More general guidance as to what indicates a constructive obligation (i.e. a specific commitment which has been communicated, or a historic established pattern, not just a future plan, or policy statement) would be helpful.** |

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| **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. | **Our responses have focussed on grant revenue and expenses as this is the area we see as being most relevant and important for NPOs, with other points being raised where we identified a need. The remaining questions have been intentionally removed for us to focus on NPO specific comments in our consultation response.** |

1. Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately. [↑](#footnote-ref-2)