

IFRNPO Guidance

January 2021

Response Document

PART 1: GENERAL NPO FINANCIAL REPORTING ISSUES

Instructions for completion

IFR4NPO has published this document for respondents to use for submitting their comments.

This document presents all of the questions in **Part 1** of the Consultation Paper with spaces for responses.

Respondents are encouraged to complete this document electronically but are not required to use this document. They may also respond using their own comment letter format or the online survey available at: <https://www.ifr4npo.org/cp-survey/>

Comments on **Part 1** are requested by **30 July 2021**

Information requested from all respondents

Name¹:

Masayuki Deguchi

Email address:

deguchi@minpaku.ac.jp

Description of your role if responding as an individual:

A Researcher and a regulator

Description of the activities of the organisation where responding on behalf of an organisation:

Click or tap here to enter text.

Jurisdiction(s) to which the feedback relates:

Japan

Accounting basis of NPO financial reports in the jurisdiction in which you mainly work:

liv) Not sure

According to legal personality, different accounting basis from modified cash to accrual basis is forced or recommended in Japan,

Financial reporting standard use by NPOs in the jurisdiction in which you mainly work

(viii) NPO specific standards/guidance based on National GAAP

School corporation's accounting is Specific accounting based on cash base. Welfare corporations have just turned NPO specific standards/guidance based on National GAAP. It is still in discussion. PIC corporations=NPO specific standards/guidance based on National GAAP

¹ Name of person providing the response and whether this is in an individual capacity or on behalf of an organisation.

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

☒ *Agree*

☐ *Disagree*

This document has been designed purely to enable feedback to the IFR4NPO consultation. The responses will be used to shape the development of the IFR4NPO Guidance 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 to the consultation will be public, but personal contact information will not be disclosed. Participation in this consultation is undertaken on an entirely voluntary basis. Personal information will only be held for the purposes of the project. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at IFR4NPO@cipfa.org

Information requested only if the organisation on behalf of which you are responding is an NPO

Which International Classification of Non Profit Organisation (ICNPO) group best describes your organisation and activities?²

Dropdown menu. Please select description that is closest.

Please provide any further information on organisation and activities in this box.

Rank revenue sources of your NPO in order of importance (optional)

	1	2	3	4	5	6
(i) Grants	☐	☐	☐	☐	☐	☐
(ii) Donations	☐	☐	☐	☐	☐	☐
(iii) Sale of goods and services	☐	☐	☐	☐	☐	☐
(iv) Gifts in kind	☐	☐	☐	☐	☐	☐
(v) Services in kind	☐	☐	☐	☐	☐	☐
(vi) Other	☐	☐	☐	☐	☐	☐

Please provide any further information on revenue source including description of Other in this box.

Approximate total revenue per annum of your NPO in US\$ (optional)

Please provide in numerical format the approximate revenue per annum of your NPO in US\$

Please provide any further information on revenue in this box

² http://ccss.jhu.edu/wp-content/uploads/downloads/2011/09/CNP_WP19_1996.pdf

General Matters for Comment (GMC)

Introduction

Part 1 of the Consultation Paper discusses the broader NPO landscape and considers this in the context of the project objectives set out in the Introduction. Part 1 includes a description of the broad characteristics of NPOs. It considers accountability and decision making and the role that general purpose financial reports can play in providing decision useful information for external stakeholders. Finally, it looks at the suitability of existing international and national financial reporting regimes as the basis of future NPO Guidance.

Comments are welcome on any or all of the parts in the Consultation Paper. Please note:

- There is no requirement to respond to all issues
- You may respond to all of the questions raised in the Consultation Paper or may choose to respond only about certain elements
- There is no minimum number of questions that can be addressed in a response. But, the greater the number of responses received, the richer the feedback for the project team to consider.

Contents

Chapter 1 *What are non-profit organisations?* outlines a broad characteristics approach to describing NPOs for developing the Guidance

Chapter 2 *Who are NPO stakeholders and what are their needs?* examines NPO external stakeholders, what information those external stakeholders need for accountability and decision-making purposes, and issues with current arrangements

Chapter 3 *What are the essential aspects of NPO Financial Reporting Guidance?* explains two key premises to develop the Guidance to support the provision of information that is useful for accountability and decision-making

Chapter 4 *How far can existing international financial reporting regimes assist NPOs?* highlights that limitations on time and resource mean that the Guidance must draw on existing frameworks. International financial reporting frameworks are proposed as the basis of the Guidance, with each having its advantages and disadvantages

Chapter 5 *Proposed way forward* puts forward a proposed model for developing the Guidance. The proposal uses *IFRS for SMEs* as a foundational framework and draws on full IFRS, IPSAS and jurisdiction level standards to develop the Guidance

Each Chapter provides General Matters for Comment (GMCs)

Chapter 1 *What are non-profit organisations?* outlines a broad characteristics approach to describing NPOs for developing the Guidance.

GMC 1(a) Do you agree with the broad characteristics proposed in Chapter 1 for describing NPOs? If not why not? Which alternative characteristics would you propose, and why?

No, I do not agree. I propose pure NPOs as alternative. (Reasons). NPO activities essentially, have the same parts as for-profit and different other parts from for-profit. The facts cause various accounting problems. First of all, accounting should be focused on only for pure NPOs activities that operate solely on donations. It is enough for NPOs that carry out activities equivalent to for-profit organizations to use the existing for-profit accounting. If taking broad characteristics of NPOs, the nature of nonprofit accounting is represented as ambiguous.

Chapter 2 *Who are NPO stakeholders and what are their needs?* examines NPO external stakeholders, what information those external stakeholders need for accountability and decision-making purposes, and issues with current arrangements.

GMC 2(a) Do you agree that NPOs are accountable to service users, resource providers, and regulators and have societal accountability? If not why not? What alternative groups would you propose that NPOs can be seen as accountable to, and why?

No, I don't agree. As an alternative, stakeholders should be focused mainly on donors and regulators. (Reasons) There is a problem in applying the for-profits external stakeholder theory to NPOs. The theory of external stakeholders of a company is a discussion centered on investors and financial institutions. NPOs have no investors. In addition, some have regulations that restrict borrowing from financial institutions by law. Accounting based on NPO's own stakeholder theory should be considered.

GMC 2(b) Do you agree that external stakeholders require information on an NPO's achievement of objectives, economy efficiency and effectiveness, compliance with restrictions and regulations, and longer term financial health, for accountability and decision-making purposes? If not why not? What alternative areas would you propose and why?

No, I don't agree. (Reasons) Our society is causing various problems by using a single measure of money. NPOs exist as an alternative to such a money-centric society. Above all, the value of efficiency makes vulnerable people who are unable to work efficiently even more vulnerable. Efficiency is a value that for-profit companies deserve, but NPOs find their raison d'être in being free from efficiency. Unlike external stakeholders in the capital markets, stakeholders of NPOs are not interested in money, but in the integrity of their activities. In addition, the stakeholders are interested in carrying out the mission and are demanding that the funds of the NPOs be used up in order to carry out the mission. For example, at the time of 911, donations were collected at US NPOs, which increased the financial health of NPOs, but on the contrary, it was the subject of criticism. This is often the case in Japan as well. Japanese law stipulates that NPOs will be dissolved when they complete their mission. Originally, there are some NPOs that are not

compatible with long-term financial stability. The projects should be focused such NPOs not social enterprises.

GMC 2(c) Do you agree with the issues that have been identified with current accountability and decision-making arrangements for NPOs? If not why not? Are there any other issues with current accountability and decision-making arrangements, particularly financial accountability to donors, that you would wish to highlight?

No, I don't agree. (Reasons) The reason why multiple non-profit accounting standards are flooded in Japan is that regulations differ from the legal personality. It has been proven in Japan that unified accounting cannot be created in situations where regulations cannot be unified. Therefore, even if we make a standard, under different regulations, as the "least common multiple" which beyond regulations, each jurisdiction will not be able to use it. This is because it is necessary to have an accounting report that matches the regulations of each jurisdiction. In order for each jurisdiction to be used, it is necessary to set a standard as the "greatest common divisor". In other words, we need to think about what common financial information for any regulators. It's information about whether NPOs have used their money correctly. If so, I think that it will be adopted in any jurisdiction.

Chapter 3 *What are the essential aspects of NPO Financial Reporting Guidance?* explains two key premises for developing the Guidance so that it supports the provision of information that is useful for accountability and decision-making.

GMC 3(a) What, if any, do you see as the main challenges with Guidance that is accrual-based?

No, I don't agree. (Reasons) Accrual accounting is not a premise but a conclusion. Rather, the premise in the CP is comparability and efficiency, which in turn leads to accrual accounting. I think the biggest problem of Part 1 is that it unconditionally presupposes comparability and efficiency, which are the theories of business accounting. Since NPO activities do not have to be efficient, there is an idea that they can be more flexible than for-profit companies. Inefficient activities such as buying products made by vulnerable people at a high price are very common in NPOs. I have never met a donor who behaves like an investor, such as comparing financial statements to make decisions. If we don't delve into this point, the project will be completely meaningless.

GMC 3(b) What, if any, do you see as the main challenges with Guidance that includes non-financial information reporting?

Yes, I agree. This premise meets the purpose of creating accounting standards specific to NPOs.

Chapter 4 *How far can existing international financial reporting regimes assist NPOs?* highlights that limitations on time and resource mean that the Guidance must draw on existing frameworks. International financial reporting frameworks are proposed as the basis of the Guidance, with each having its advantages and disadvantages.

GMC 4(a) Do you agree that international frameworks are the best start point for the Guidance? If not, why not?

No, I don't agree. I think the direction is the opposite. We should start the discussion with the characteristics of NPOs. This proposed method is not appropriate if the assumptions of comparability and efficiency are broken.

GMC 4(b) Do you agree with the criteria that have been used to assess the suitability of the existing international frameworks? If not, why not and what other criteria do you believe could be used and why?

No, I don't agree. The starting point of this project is that the natures of for-profits and NPOs is different, as pointed out by CCAB (2014). I don't think it will take much time to create a framework specific to NPOs, regardless of comparability and efficiency.

GMC 4(c) Do you agree with the high-level assessment of the existing international frameworks against these criteria? If not, why not? What assessment would you make and why?

No, I don't agree. We should try to create a cash basis framework and then assess what is wrong.

Chapter 5 *Proposed way forward* puts forward a proposed model for developing the Guidance. The proposal uses the *IFRS for SMEs* Standard as a foundational framework and draws on full IFRS Standards, IPSAS and jurisdictional-level standards to develop the Guidance.

GMC 5(a) What do you see as the main challenges, if any, with the proposed model and the use of the *IFRS for SMEs* Standard as the foundational framework? What, if any, alternative model and/or foundational framework do you suggest would be more suitable and why?

No, I don't agree. The legal system of NPOs is not similar in each country like the system of for profits. We should think a little more carefully about the accounting regulations for each jurisdiction. There are also jurisdictions where accounting standards are legally enforced. It is unrealistic to stick to comparability in such a situation. I think we should propose a two-step method that allows us to create a minimum consensus framework and then add the required framework for each jurisdiction beyond our responsibilities.