

July 28, 2021

Submitted electronically via www.ifr4npo.org

Head of Programme, IFR4NPO
Chartered Institute of Public Finance and Accountancy
77 Mansell Street
London, E1 8AN
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Dear Sirs,

Re: International Financial Reporting for Non-Profit Organisations Consultation Paper

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to Consultation Paper “International Financial Reporting for Non-Profit Organisations” issued in January 2021.

Who we are and our process

The AcSB is an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations (NFPOs) and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

To develop our response to this Consultation Paper, we leveraged the knowledge and experience we have from developing and maintaining our own set of NFPO standards for Canadians. We have also used the knowledge we have from participating in global discussions and working groups on NFPO standards.

Our view

The AcSB supports the International Financial Reporting for Non-Profit Organisations (IFR4NPO) project to develop accounting standards for NFPOs in jurisdictions that currently do not have such guidance. We think this is an important initiative that contributes to global best practices in accounting standard setting for NFPOs.

This letter sets out the AcSB's response to Part 1 of the Consultation Paper. The AcSB will not be submitting a formal comment letter on Part 2 of the Consultation Paper, which focuses on the specific technical issues to be addressed by this project. However, the AcSB looks forward to continuing its support of this initiative going forward, through the contribution of staff time and other resources, and the provision of further feedback, when relevant. The AcSB will also continue to follow the activities and outcomes of this project and will consider the learnings from this initiative as we make improvements to Canada's NFPO standards.

Proposed way forward

The AcSB thinks the proposed way forward, which would use IFRS for SMEs as the foundational framework, is reasonable. Figure 5.3 in the Consultation Paper notes that the initial focus for the guidance is moderately complex NFPOs; large, international NFPOs would likely be too complex for the guidance, and small, local NFPOs often don't require accruals-based financial statements. Given this focus, we think IFRS for SMEs is the best foundation because it is a less complex set of standards that aligns well to the size and complexity of the target NFPOs. While IFRS for SMEs was developed for for-profit entities, it can be tailored to NFPOs without also needing to be tailored to the right size and complexity of entity.

We note that both IFRS for SMEs and IPSAS are developed based on IFRS and therefore there are many similarities across all three frameworks. However, we think both IFRS and IPSAS would be too complex for the targeted NFPOs, and could be more challenging to tailor for those organizations. For example, while IPSAS may better address an NFPO-specific issue than IFRS for SMEs (e.g. accounting for incoming resources), the IPSAS guidance on the issue may not meet the needs of less complex NFPOs and their users. This ultimately could affect the usefulness of the IFR4NPO guidance and the timeliness of the IFR4NPO project. While IFRS for SMEs does not address certain NFPO-specific issues, guidance can be created to fill those gaps. We think it would be simpler to create guidance to fill these gaps, than to start with a foundational framework that is overly complex and try to tailor it to less complex NFPOs.

Where IFRS for SMEs is silent on NFPO-specific matters, we are supportive of the proposed model outlined in figure 5.1 in the Consultation Paper to look to IPSAS and IFRS for options to provide specific guidance to NFPOs. In particular, we think it will be helpful to look to IPSAS for NFPO-specific issues not addressed by IFRS for SMEs, such as non-exchange revenue and measurement of non-financial assets held for social benefit, given the similar characteristics that can exist between NFPOs and public sector entities.

We also note that this proposed way forward is similar to the approach used for NFPO standards applied by private sector NFPOs in Canada. Under Canadian GAAP, these NFPOs apply Accounting Standards for Private Enterprises (Part II of the CPA Canada Handbook - Accounting) for issues not specific to NFPOs, and Accounting Standards for NFPOs (Part III of the Handbook) for issues unique to NFPOs. We find this approach effective at both addressing the specific needs of NFPOs and their financial statement users, while also maintaining comparability and consistency for issues that are not unique to NFPOs. In Canada, any NFPO can choose to apply IFRS instead of Parts II and III of the Handbook, and therefore larger,

more complex NFPOs can apply IFRS if they think it is more suitable framework based on the nature of their operations/transactions and the needs of their users.

Regardless of which framework serves as the foundation for this guidance, the proposed approach will benefit from the robust due process that is applied to the development of each IFRS, IFRS for SMEs and IPSAS.

While we agree that IFRS for SMEs provides an appropriate foundation for this guidance, we encourage you to be mindful that IFRS for SMEs was not developed with this purpose in mind. It is possible that certain guidance in IFRS for SMEs (e.g. disclosure requirements) might not be suitable for NFPOs. It is important to take this factor into consideration when developing the IFR4NPO guidance, and if necessary, develop ways to address this potential concern.

The AcSB agrees that the IFR4NPO guidance should be focused on a sub-set of the not-for-profit sector, as proposed in the Consultation Paper and discussed above. This sector is vast and varied, and it would be challenging to meet the needs of all organizations and stakeholders with one set of guidance. We think this project can move forward on a timely basis and meet the proposed timelines by keeping the focus narrow. Should there be demand in the future, this approach also allows for the guidance that is developed to be scaled for smaller or larger organizations not covered by this initial project.

Potential challenges on the path forward

One challenge we foresee is with the accessibility and presentation of the guidance itself. Organizations will need to refer to both IFRS for SMEs and the NFPO specific guidance to establish their accounting policies. We recommend you consider how both parts of the guidance could be combined into one source/location to make the guidance easier to access and navigate, and to improve the understandability of the guidance itself. One option would be to consider an annotated version of IFRS for SMEs. Technology solutions, such as an app, could also be a helpful by making it easier to search and find relevant guidance for a particular topic. We acknowledge that both options would require you to consider copyright issues associated with the use of IFRS for SMEs.

We also encourage you to consider the due process for this guidance in the long term. We think the current project has established a thorough due process, which will support the development of quality guidance for NFPOs. However, ongoing work will be required to maintain the guidance – both to address changes in the environment (including the needs of stakeholders) and changes to IFRS for SMEs as the underlying foundational framework. Without this process, the guidance developed risks becoming obsolete. We recommend that consideration is given to this in the near term, to ensure a robust process and adequate funding is in place once the initial scope of work on this project is complete.

Next steps

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Kelly Khalilieh, Director, Accounting Standards (+1 416 204-3453 or

email kkhalilieh@acsbcanada.ca) or Katherine Knowlton, Principal, Accounting Standards (+1 416 204-3332 or email kknowlton@acsbcanada.ca).

Yours truly,



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