

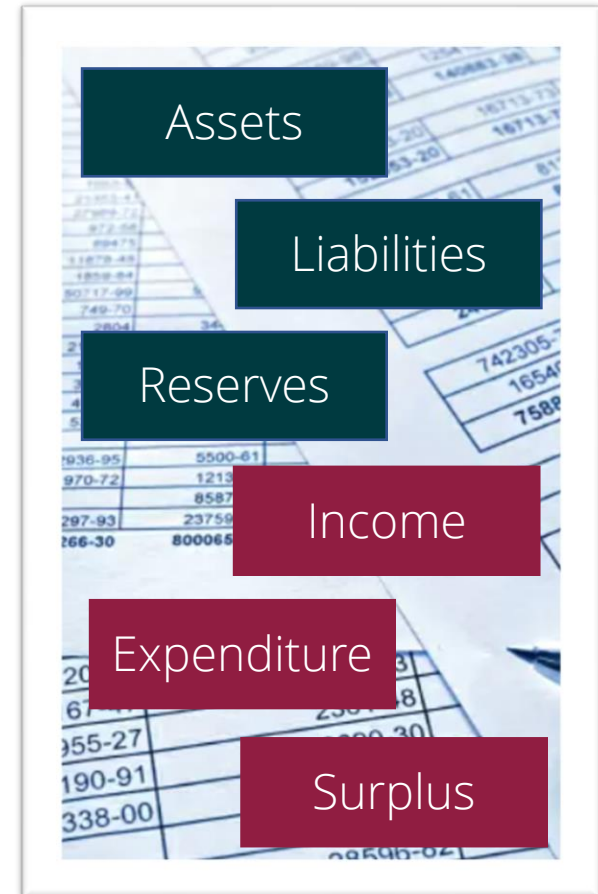


# IFR4NPO Project

ED1

September 2022

[www.ifr4npo.org](http://www.ifr4npo.org)



# Agenda

- ***Background***
- ***Structure of the documents***
- ***Key terms***
  - Contributed capital
  - Service potential
  - Restrictions
- ***SMCs***
- ***Implementation guidance - feedback***

# Background

- ***First full draft of the INPAG (Part 1) provided to the TAG. This included the authoritative guidance for:***
  - Preface
  - Section 1 – NPOs
  - Section 2 – Concepts and pervasive principles
  - Section 3 – Financial statements
  - Section 4 – Statement of financial position
  - Section 5 – Statement of income and expenses
  - Section 6 – Statement of changes in net assets
  - Section 7 – Statement of cash flows
  - Section 8 – Notes to the financial statements
  - Section 9 – Consolidated and separate financial statements
  - Section 10 – Accounting policies, estimates and errors
  - Section 35 – Narrative reporting

# Background

- ***TAG also provided with***
  - Proposed questions to ask consultees
  - Basis for conclusions
  - Implementation guidance
- ***TAG are yet to see an ‘Overview’.***
  - Being written to highlight the key issues in the Exposure Draft
  - Dependent on conclusion of the draft Guidance
  - Will be translated into Spanish, French and Arabic
- ***TAG to provide final comments at its meeting at the end of September***
- ***Publication 21 November –WCOA 2022 Mumbai***

# Structure of the documents

| Proposal                                                                                                                                                            | Feedback                                                     | Response                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| To describe the three tier model, with INPAG aimed at tier 2                                                                                                        | Is the audience for the document clear                       | To make clearer that INPAG will not be the framework for tier 1                                |
| IFR4NPO is being delivered in phases with each phase prioritising specific topics. INPAG is being exposed in 3 parts within Phase 1. INPAG is comprised of Sections | Potential confusion with the uses of Phases, Parts, Sections | Use the Overview to set out how INPAG is being delivered                                       |
| Authoritative guidance is in one volume with the basis for conclusion and implementation guidance separate                                                          | Preference for INPAG be presented as a single document       | Provide the guidance in individual volumes <u>and</u> as a single document through the website |
|                                                                                                                                                                     | How will links to future content be shown                    | Use the Overview to describe links with future content                                         |
| Section 19, updated only for terminology to be included in ED1 to show what this means                                                                              | Mixed views on the inclusion of Section 19                   | To remove from ED1 due to the amount of content in ED1                                         |

Does the PAG have any advice on how INPAG is presented to make it understandable and accessible to potential users of the Guidance?

# Contributed capital



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| Proposal                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Feedback                                                                                                               | Response                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Contributed capital</b> - Future economic benefits or service potential that has been contributed to an NPO by parties external to the NPO, other than those that result in liabilities of the NPO, that establish a financial interest in the net assets of the NPO, which: conveys entitlement both to (i) distributions of future economic benefits or service potential by the NPO during its life, such distributions being at the discretion of the NPO, and to (ii) distributions of any excess of assets over liabilities in the event of the NPO being wound up; and/or can be sold, exchanged, transferred, or redeemed.</p> <p><b>Service beneficiary</b> - individual, group of individuals or organisation that is in receipt of services, goods, or advocacy of an NPO.</p> | Question whether contributed capital would exist in the NPO context                                                    | <p>Add additional context around contributed capital, noting that it is not expected to be common but that different legal and regulatory structures mean it is possible.</p> <p>Seek additional examples.</p> <p>Surpluses or deficits generated over time do not have create an entitlement by service recipients or provide any rights over the NPOs net assets.</p> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Need examples of contributed capital                                                                                   |                                                                                                                                                                                                                                                                                                                                                                         |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Question whether service beneficiaries are the equivalent of owners and whether they are entitled to accumulated funds |                                                                                                                                                                                                                                                                                                                                                                         |

Does the PAG have any advice on likely sources of contributed capital?  
Does the PAG agree that it is only the providers of contributed capital that might have rights over the assets of an NPO?

# Service potential

| ED1 drafting                                                                                                                                                                                                           | Feedback                                                                                                           | Response                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Service potential - The capacity to provide services that contribute to achieving the NPO's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows. | Is service potential separate to economic benefits or part of economic benefits                                    | Economic benefits are not solely about generating net cash inflows and the maximisation of those net cash inflows. Propose that service potential is included as a concept within economic benefits and make consequential amendments |
|                                                                                                                                                                                                                        | Are examples of service potential needed                                                                           |                                                                                                                                                                                                                                       |
|                                                                                                                                                                                                                        | Is service potential clear in how it has been introduced as a concept in areas such as recognition and measurement |                                                                                                                                                                                                                                       |

Does the PAG have any concerns about the concept of service potential?

# Restrictions



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| ED1 drafting                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Feedback                                                                                  | Response                                                                                                                                                                                                                                                                                                                                                                                             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Funds with restrictions</b> - Funds when there are externally imposed funding or other legal arrangements placed by a resource provider that restrict the financial resources provided to be expended, invested or retained by the NPO for a specific purpose or activity. Disclosure:</p> <p><b>SoFP</b> – aggregate of funds with and without restrictions</p> <p><b>SoIE</b> - Aggregated income and expenses with restrictions presented in a separate column to aggregated income and expenses without restrictions on the face of the statement of income and expenses.</p> <p><b>SoCNA</b> - a reconciliation between the carrying amount at the beginning and the end of the period for funds with restriction and without restrictions</p> | Explain the components of the funds with and without restrictions                         | <p>Clarify this includes endowment funds which could be permanent or expendable. Explain funds without restrictions would allow for internally designated funds.</p> <p>Enhance explanations of presentation requirements.</p> <p>Clarify the requirements of cash with and without restrictions.</p> <p>We are expecting NPOs to recognise and disclose funds with restrictions where relevant.</p> |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Explain how funds with and without restrictions are presented in the financial statements |                                                                                                                                                                                                                                                                                                                                                                                                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Be clearer about whether the use of fund accounting is mandated                           |                                                                                                                                                                                                                                                                                                                                                                                                      |

What is the PAG's advice on the understandability of the terms 'funds with restrictions' and 'funds without restrictions'?

As fund accounting is not used in all jurisdictions do the PAG have any advice about use of the term 'fund accounting'?

# SMCs

| Proposal                                                                                                                              | TAG Feedback                                                                                               |
|---------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| There is a question on each Section and then general questions. These are presented as a single list at the beginning of the document | It might be better to put the questions for each Section at the end of the relevant Section, or do both    |
| 12 SMCs almost all of which have sub-questions (36 in total)                                                                          | Are there too many questions. Feels like there are too many questions, but can't see what you would delete |
| Each question asks for the rationale for the response given                                                                           | Agree with the approach but, some should seek an alternative proposal where there is disagreement          |
| Each question is qualitative in nature                                                                                                | One TAG member suggested a quantitative question                                                           |

Do you have any advice about how the questions are presented so that it doesn't appear too intimidating?

The Secretariat are proposing that quantitative questions are included in a survey. Do you have any advice on who should be targeted for such a survey?



# PAG Feedback on Implementation guidance

## Generally supportive of proposals

- Positive feedback on the range of examples
- Suggestions around undue cost or effort
- Ability to express compliance with INPAG

## Financial statements

- Locate the template financial statements in a separate annex
- Use of the terms 'endowment' and 'investing cashflows'
- Highlight taxes within financial statements

## Description of NPOs

- Implications of NPO characteristics for some UK entities
- Disclosure of rationale for being an NPO

## Narrative reporting

- Description of sensitive activities in narrative reporting
- Specific disclosures as part of narrative reporting
- Suggestions on materials to support narrative reporting