

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGED05-04

6 April 2022 – Online

Section 1 – Non-profit organisations - Exposure Draft

Summary	The paper sets out the key issues associated with the first draft of the text for Section 1 of the INPAG and its Basis for Conclusions.
Purpose/Objective of the paper	This paper provides TAG members with the emerging technical issues associated with Section 1 – Non-profit organisations of the INPAG that will form part of Exposure Tranche 1 which is due to be published in late 2022. It highlights key areas where the INPAG Secretariat considers there may be outstanding technical considerations.
Other supporting items	N/A
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Actions for this meeting	<u>Advise</u> on the areas of Section 1 – Non-profit organisations and its Basis for Conclusions where there may be outstanding technical considerations.

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Section 1 – Exposure Draft

1. Exposure Draft and paper format

- 1.1 Exposure Draft Tranche 1 is due to be published in late 2022. Included in Tranche 1 will be the Sections that relate to the framing of the INPAG. Following the format of the *IFRS for SMEs* Standard this will include Sections related to the Preface, Non-Profit Organisations, and the Concepts and Pervasive Principles.
- 1.2 The INPAG incorporates Sections from the IFRS for SMEs Standard directly where there is no NPO sector specific reason for any change to be made. Where NPO-specific financial reporting issues have not been comprehensively or appropriately dealt with in the existing IFRS for SMEs Standard, or where there is no related Section in the IFRS for SMEs Standard providing any financial reporting guidance, the INPAG may make a change to the IFRS for SMEs Standard.
- 1.3 The Sections that relate to the framing of the INPAG are some of those where the IFRS for SMEs Standard will be subject to the most extensive change. In order to assist TAG members in understanding where text from the IFRS for SMEs Standard has been incorporated directly or been subject to change, the following approach is being used:

Text colour	Explanation
Black	Original IFRS for SMEs Standard text
~~Red strikethrough~~	Deletion of text within original IFRS for SMEs Standard text
Green	Change of terminology only
Purple	Text originated from IFRS Standards
Blue	Original INPAG text
<u>Blue underlined</u>	Text originated from IPSAS Standards

- 1.4 In addition to the proposed Exposure Draft text relating to each Section and its associated Basis for Conclusions, a further document will be provided that maps the Section from the IFRS for SMEs Standard to the proposed Section of the INPAG.

2. Content and purpose of Section 1 – Non-profit organisations

- 2.1 The purpose of Section 1 *Small and Medium-sized Entities* of the IFRS for SMEs Standard is to define the intended scope of the Standard as being for use by small and medium-sized entities and to describe the characteristics of such entities.
- 2.2 Small and medium-sized entities are described by the IFRS for SMEs Standard as entities that do not have public accountability and publish general purpose financial statements for external users.
- 2.3 As part of its description of public accountability, Section 1 *Small and Medium-sized Entities* of the IFRS for SMEs Standard also provides guidance on the use of the Standard by publicly accountable entities, subsidiaries of publicly accountable entities, and separate and consolidated financial statements.
- 2.4 Section 1 – *Non-profit organisations* of the INPAG has a similar purpose. It indicates that NPOs are entities that publish general purpose financial reports for external users and describes the broad characteristics of NPOs and indicators that support those broad characteristics.
- 2.5 Section 1 – *Non-profit organisations* of the INPAG also discusses the use of the Guidance by entities that have public accountability as defined in IFRS, and how the INPAG can be used by subsidiaries of publicly accountable entities, and separate and consolidated financial statements.
- 2.6 The Basis for Conclusions provides a summary of the considerations made during the development of the Preface for the Exposure Draft. Areas that have been included are:
- Intended scope of the INPAG;
 - The development of the broad characteristics approach to describing NPOs;
 - Broad characteristics;
 - Indicators; and
 - Public accountability and societal accountability.

Question 1: Are there any areas that the TAG considers are missing from Section 1 – *Non-profit organisations* or the Basis for Conclusions?

3. Description of non-profit organisations

- 3.1 At TAGED04, an overview of proposed changes to the description of NPOs, broad characteristics and indicators was provided for comment and on the basis of TAG views these have now been further refined.
- 3.2 The most significant change is that the description of an NPO as an entity not controlled by government has been removed. Instead a new broad characteristic has been introduced to note that an NPO is not a government or public sector entity that should prepare general purpose financial reports under public sector financial reporting standards.
- 3.3 This change has been made because it was recognised that while there may be entities that could be deemed to be subject to government control under relevant statistical accounting standards, nonetheless the INPAG would be the appropriate framework for them to use from a financial reporting perspective.
- 3.4 This broad characteristic therefore highlights some key characteristics of government and public sector entities that differ from NPOs and would require the needs of users of their general purpose financial reports to be met through the use of public sector financial reporting standards.
- 3.5 The indicators, which are to be used when it is not clear if an entity fully displays the broad characteristics have also been amended slightly to take into consideration a discussion at the PAG on certain types of entity, such as cooperatives and those that provide benefits through membership schemes.

Question 2: Are there any further changes to the broad characteristics or indicators in Section 1 – *Non-profit organisations* that the TAG considers necessary? Is any additional guidance in this area necessary beyond the core guidance in Section 1 and the Basis for Conclusions?

4. The use of the INPAG

- 4.1 Section 1 – *Non-profit organisations* is being drafted so that although entities that have public accountability as defined in full IFRS standards may find the INPAG useful, they should not prepare their general purpose financial reports or general purpose financial statements in accordance with it. They are also not permitted to make a statement of compliance with the INPAG.

- 4.2 This is the case even if a publicly accountable entity is required or permitted to use the INPAG by law or regulation in its jurisdiction.

Question 3: Are the TAG content with the prohibition from making a statement of compliance with the INPAG by entities that meet the definition of being publicly accountable under IFRS?

5. Content drafting

- 5.1 As set out in paragraph 1.4, Annex A contains the current drafts of the guidance, basis for conclusions and a table that sets out the differences between the draft INPAG guidance and the *IFRS for SMEs* Standard. The TAG are invited to provide detailed comments on the draft in correspondence.

Question 5: Does the TAG have any key points of principle arising from the current drafting outside of the key issues discussed in section 2, 3 and 4?

March 2022