

Annex A

SECTION 1 – Non-profit organisations

Intended scope of the INPAG

G1.1 The INPAG is intended for use by Non-Profit Organisations (NPOs). This section describes the broad characteristics of NPOs.

Description of non-profit organisations

G1.2 NPOs are entities that publish general purpose financial reports for external users and should have all of the following broad characteristics:

- They have the primary objective of providing goods and/or service for public benefit;
- They direct surpluses for the public benefit; and
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

Additional detail on these broad characteristics is included in G1.3-G1.5.

Primary public benefit objective

G1.3 NPOs will have the primary objective of providing goods and/or services for public benefit. This may be the provision of goods and services to the general public, community or for wider societal benefit and not to generate a private benefit for providers of resources.

Direct surpluses for public benefit

G1.4 NPOs will direct surpluses for public benefit. NPOs may generate a financial surplus from their activities, particularly where they receive income from the sale of goods and services, receive donations that are intended to support programmes over multiple financial years, or have significant financial assets. Such financial surpluses will be directed to furthering the entity's primary public benefit objectives and not distributed for private benefit to providers of resources to the entity.

Not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards

G1.5 Like NPOs, the primary objectives of most government and public sector entities are to deliver goods and services for the public benefit and not to make profits that generate a financial return for investors. However, government and public sector entities have different characteristics such as the importance of funding through taxation, budgets that are approved and overseen by a legislative body or equivalent, and the existence of redistributive and regulatory powers that can only be exercised with government authority. The needs of users of government and public sector general purpose financial reports will be met through the use of public sector financial reporting standards. Entities with these characteristics should not be described as NPOs.

Indicators

G1.6 It may not always be clear if an entity fully displays the broad characteristics of an NPO. The following are indicators of the existence of these characteristics:

- Absence of rights to financial returns and a requirement to transfer residual net assets upon dissolution
- Voluntary funding
- Holding and using assets for public benefit

Additional detail on these indicators is included in G1.7-G1.9.

Absence of rights to financial returns and a requirement to transfer residual net assets upon dissolution

G1.7 NPOs will generally not have obligations to individuals that have rights to financial returns. The NPO may have a requirement that upon its dissolution any residual net assets have to be transferred to an entity with a similar purpose.

Voluntary funding

G1.8 It is regularly the case that NPOs are in receipt of voluntary funding through donations, grants or volunteering of services, which may be significant. Such resources and any restrictions on use should not generally, however, entitle the provider to financial or other economic returns.

Holding and using assets for public benefit

G1.9 NPOs will regularly hold and use assets primarily to assist in delivering goods and/or services for public benefit and not to generate financial returns to providers of resources. NPOs may control or have access to assets such as buildings or equipment that are used as a part of their operations. They may also have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets, and natural assets.

Use of INPAG

G1.10 Entities that have public accountability as defined in full IFRS standards may find the INPAG useful. They should not, however, prepare their general purpose financial reports or general purpose financial statements in accordance with INPAG. They also cannot make a statement of compliance with INPAG. Entities that have public accountability are defined in full IFRS standards as:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

G1.11 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal

membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

- G1.12 If a publicly accountable entity **as defined in IFRS** uses this ~~Standard~~ **Guidance**, its financial statements shall not be described as conforming to **INPAG** ~~the IFRS for SMEs~~—even if law or regulation in its jurisdiction permits or requires this ~~Standard~~ **Guidance** to be used by publicly accountable entities.
- G1.13 A **subsidiary** whose **parent** uses **full IFRS**, or that is part of a consolidated **group** that uses full IFRS, ~~is not prohibited from using this Standard~~ **may use INPAG** in its own financial statements if that subsidiary by itself does not have public accountability. ~~If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all of the provisions of this Standard.~~
- G1.14 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use **INPAG** ~~this Standard~~ in its **separate financial statements** on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with **INPAG** ~~this Standard~~ (see Section 9 *Consolidated and Separate Financial Statements*), even if it presents its **consolidated financial statements** in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with **INPAG** ~~this Standard~~ shall be clearly distinguished from financial statements prepared in accordance with other requirements.

Section 1 - Basis for Conclusions

Introduction

- BC 1.1 This Basis for Conclusions summarises the considerations made during the development of Section 1 – Non-profit organisations for the Exposure Draft.
- BC 1.2 It includes details of any changes made to the approach that was set out in the IFR4NPO Consultation Paper as a result of feedback from respondents. This has been done to enable respondents to this Exposure Draft to understand the evolution of the proposals from the Consultation Paper to Exposure Draft stage.
- BC 1.3 This Basis for Conclusions will be updated following the finalisation of Section 1 – Non-profit organisations after the Exposure Draft stage.

Intended scope of the INPAG

- BC 1.4 The INPAG can be beneficial for all non-profit organisations no matter their size or jurisdiction. For those organisations that are small, have simple stakeholder needs, and there is no fiduciary obligation, the INPAG and its accrual requirement may be more than is needed to meet accountability requirements. For these organisations the INPAG will provide useful guidance that NPOs may draw on and move to over time. More complex organisations that meet the public accountability definition in IFRS will need to follow full IFRS. However, INPAG may provide useful guidance for NPO specific transactions that can be adopted. The decision about which entities apply INPAG rests with legislative and regulatory authorities and standard setters in individual jurisdictions.

Description of Non-profit organisations

- BC 1.5 A broad characteristics approach was developed for the Guidance to identify the entities that the INPAG is expected to primarily benefit. This has enabled a focus on how to best meet the needs of the users of the general purpose financial reports of entities with these characteristics.
- BC 1.6 Respondents to the IFR4NPO Consultation Paper were overwhelmingly supportive of this approach. It was recognised that a narrower focus on entities with, for example, a specific legal status as an NPO could exclude many entities that could benefit from the INPAG and that not all jurisdictions have a relevant legal framework that would permit a narrow legal status approach. In addition, entities that are deemed to be NPOs in one jurisdiction's legal code may not be deemed to be an NPO in another jurisdiction despite them being structured in the same way and carrying out the same activities.
- BC 1.7 Changes have been made to the broad characteristics that were included in the IFR4NPO Consultation Paper. Respondents noted that the broad characteristics included in the Consultation Paper could have unintentionally included or excluded entities. This was partly due to the presentation of the characteristics as "and/or" statements, concern about how each individual characteristic might be applied and uncertainty as to what key terms included in the characteristics meant.

BC 1.8 Some respondents, for example, noted that the characteristics might call for the inclusion of a wide range of entities that they did not expect to be an appropriate focus for the Guidance. These included:

- government entities that should follow public sector accounting standards;
- private sector entities like hospitals that provide services for the public benefit or use assets to fulfil a social purpose, but which would be expected to follow private sector accounting standards; and
- certain types of organisations providing benefit only to a small and privileged membership that could be deemed too exclusive to be viewed as a non-profit organisation.

BC 1.9 As well as scoping in entities that they did not believe were an appropriate focus for the Guidance, some respondents also noted that the broad characteristics currently proposed might exclude entities that they believed should be within scope. Examples included:

- entities providing goods for public benefit and not services,
- grant-giving bodies providing funding to other NPOs, and
- entities that work to preserve and enhance the environment, heritage assets, or other areas that might not immediately be deemed to be for a “social” purpose.

BC 1.10 In addition to raising the possibility of unintended consequences with respect to scope, some respondents also questioned whether all of the broad characteristics were characteristics in their own right or should more appropriately be seen as indicators of other characteristics or consequential to activities driven by them.

Broad characteristics

BC 1.11 The broad characteristics have been amended so that they are no longer presented as “and/or” statements. Rather an entity is expected to display all of the broad characteristics if it is to be described as an NPO for the purpose of the INPAG.

BC 1.12 The broad characteristics of NPOs have been revised as follows:

- They have the primary objective of providing goods and/or service for public benefit; and
- They direct surpluses for the public benefit; and
- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.

Primary public benefit objective

BC 1.13 Having a primary public benefit objective is an essential characteristic of an NPO and in many cases this will be specified in the founding documents of the entity. The primary objective of an NPO will be to provide goods and/or services to the general public, community or for wider societal benefit, and it is the general public, community or a particular section of the community who will be the primary beneficiaries of the entity's activities. The primary objective of an NPO will not be for financial or other economic returns, though some of these might occur.

BC 1.14 This contrasts to for-profit entities, whose primary objective will be to generate a financial surplus in order to provide a financial return to equity holders. It is these equity holders, or

other providers of resources to the entity such as holders of debt or suppliers, who will be the primary beneficiaries of the activities of the entity.

BC 1.15 In response to feedback received to the IFR4NPO Consultation Paper this characteristic explicitly notes that an entity may provide goods for public benefit as well as services. The characteristic also makes clear that depending on the goods and services provided by the entity, the section of the public that benefit from the NPOs activities could be quite limited and even restricted to a defined membership of the entity. Where the 'public' is limited in this way it is necessary that the other characteristics and indicators are examined carefully to ensure the entity is an NPO.

Direct surpluses for public benefit

BC 1.16 NPOs will need to be financially viable to meet their objectives. This may include undertaking activities which generate a profit or financial surplus such as selling goods and services or holding and trading financial assets. These should be used to support the primary public benefit objective of the entity. Generating profits or a financial surplus should not be the primary objective of the NPO.

BC 1.17 This will contrast with for-profit entities, where generating profits will be a primary objective and financial returns will generally be provided to providers of economic resources such as providers of equity.

Not government or public sector entities that should prepare general purpose financial reports under public sector accounting standards

BC 1.18 Responses to the IFR4NPO Consultation Paper noted that it was unclear whether government entities were expected to be within scope of the INPAG.

BC 1.19 In some jurisdictions, financial reporting guidance for NPOs is included as part of a broader framework of standards for all 'public benefit entities' which includes government and public sector entities as well as non-profit organisations. Where this is the case, however, there is usually a clear distinction made between those standards that are applicable to entities that are controlled by government and other public benefit entities which are not.

BC 1.20 The IFR4NPO project does not have an objective of providing financial reporting guidance to government entities, nor to examine those transactions and economic events that are only relevant in the public sector context. For most government and public sector entities, the accountability and decision-making needs of the users of their GPFs are likely to be best met by preparing them under public sector accounting standards.

Indicators

BC 1.21 Some of the broad characteristics included in the IFR4NPO Consultation should more appropriately be seen as indicators of other characteristics or consequential to activities driven by them. Additional guidance is also needed for cases where there may be uncertainty as to whether the broad characteristics have been met.

BC 1.22 "Indicators" have therefore been developed to assist entities in determining whether they are within the intended scope of applicability of the INPAG. These are intended to assist in decision making where it is not clear if an entity fully displays the broad characteristics of an NPO.

BC 1.23 Two of these, namely 'voluntary funding' and 'purpose and use of assets' were previously included as broad characteristics in the IFR4NPO Consultation Paper. 'Voluntary funding' has been expanded to cover grant-giving bodies that provide funding to other NPOs where in the Consultation Paper it was only focussed on the receipt of voluntary funding and not its provision. 'Purpose and use of assets' has also been expanded to provide clarity that it covers entities that have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets, and natural assets.

BC 1.24 A third indicator has been introduced to the Exposure Draft i.e., 'rights to financial returns and a requirement to transfer residual net assets upon dissolution'. This indicator is included as the consultation responses identified it as an indicator used in a number of jurisdictional-level frameworks that provide guidance on determining whether an entity exists for public benefit. This third indicator is focussed on the nature of defined rights to financial benefits during an entity's existence and upon its dissolution.

Public accountability and societal accountability

BC 1.25 The IFRS for SMEs Standard is designed to be used by entities that do not have public accountability as defined in IFRS. The IFRS for SMEs Standard notes that an entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

BC 1.26 Entities that have public accountability are expected to use IFRS. If a publicly accountable entity uses the IFRS for SMEs Standard, it is not permitted to describe its financial statements as conforming to the IFRS for SMEs Standard even if law or regulation in its jurisdiction permits or requires the IFRS for SMEs Standard to be used by publicly accountable entities.

BC 1.27 The IFR4NPO Consultation Paper proposed that NPOs have a wider societal accountability. This is an expansive view of accountability that recognises a general accountability to society at large due to the importance of NPO goods and services, the funding environment, the preferential treatment that NPOs can receive compared to other organisations, and the need to ensure the effective operation of the wider sector.

BC 1.28 While all NPOs can be said to have societal accountability, some may also meet the IFRS definition of public accountability. Where an NPO believes it meets the IFRS definition of public accountability, it should follow IFRS Standards in order to meet the accountability and decision-making needs of the users of their GPFRs. Where IFRS Standards do not provide appropriate and/or sufficient guidance for economic events and transactions, these entities may use the INPAG as a source of information.

Mapping of the *IFRS for SMEs* Standard to INPAG

Section 1

The <i>IFRS for SMEs</i> Standard	INPAG
Intended scope of this Standard	Intended scope of the INPAG
1.1 The <i>IFRS for SMEs</i> is intended for use by small and medium-sized entities (SMEs). This section describes the characteristics of SMEs.	G1.1 The INPAG is intended for use by Non-Profit Organisations (NPOs) . This section describes the broad characteristics of NPOs.
Description of small and medium-sized entities	Description of non-profit organisations
1.2 Small and medium-sized entities are entities that: (a) do not have public accountability; and (b) publish general purpose financial statements for external users. Examples of external users include owners who are not involved in managing the business, existing and potential creditors, and credit rating agencies.	G1.2 NPOs are entities that publish general purpose financial reports for external users and should have all of the following broad characteristics: • They have the primary objective of providing goods and/or service for public benefit; • They direct surpluses for the public benefit; and • They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards. Additional detail on these broad characteristics is included in G1.3-G1.5.
	Primary public benefit objective
	G1.3 NPOs will have the primary objective of providing goods and/or services for public benefit. This may be the provision of goods and services to the general public, community or for wider societal benefit and not to generate a private benefit for providers of resources.
	Direct surpluses for public benefit
	G1.4 NPOs will direct surpluses for public benefit. NPOs may generate a financial surplus from their activities, particularly where they receive income from the sale of goods and services, receive donations that are intended to support programmes over multiple financial years, or have significant financial assets. Such financial surpluses will be directed to furthering the entity's primary public benefit objectives and

	not distributed for private benefit to providers of resources to the entity.
	Not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards
	G1.5 Like NPOs, the primary objectives of most government and public sector entities are to deliver goods and services for the public benefit and not to make profits that generate a financial return for investors. However, government and public sector entities have different characteristics such as the importance of funding through taxation, budgets that are approved and overseen by a legislative body or equivalent, and the existence of redistributive and regulatory powers that can only be exercised with government authority. The needs of users of government and public sector general purpose financial reports will be met through the use of public sector financial reporting standards. Entities with these characteristics should not be described as NPOs.
	Indicators
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	Absence of rights to financial returns and a requirement to transfer residual net assets upon dissolution
	G1.9 NPOs will generally not have obligations to individuals that have rights to financial returns. The NPOs may have a requirement that upon its dissolution that any residual net assets have to be transferred to an entity with a similar purpose.

	Voluntary funding
	G1.8 It is regularly the case that NPOs are in receipt of voluntary funding through donations, grants or volunteering of services, which may be significant. Such resources and any restrictions on use should not generally, however, entitle the provider to financial or other economic returns.
	Holding and using assets for public benefit
	G1.9 NPOs will regularly hold and use assets primarily to assist in delivering goods and/or services for public benefit and not to generate financial returns to providers of resources. NPOs may control or have access to assets such as buildings or equipment that are used as part of their operations. They may also have a responsibility for the preservation and enhancement of assets such as artistic works, heritage assets, and natural assets.
	Use of INPAG
1.3 An entity has public accountability if: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).	G1.10 ~~An entity has public accountability if:~~ Entities that have public accountability as defined in full IFRS standards may find the INPAG useful. They should not, however, prepare their general purpose financial reports or general purpose financial statements in accordance with INPAG. They also cannot make a statement of compliance with INPAG. Entities that have public accountability are defined in full IFRS standards as: (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
1.4 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or	G1.11 Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (as, for example, may be the case for travel or

real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.	real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.
1.5 If a publicly accountable entity uses this Standard, its financial statements shall not be described as conforming to the <i>IFRS for SMEs</i> —even if law or regulation in its jurisdiction permits or requires this Standard to be used by publicly accountable entities.	G1.12 If a publicly accountable entity as defined in IFRS uses this Standard Guidance , its financial statements shall not be described as conforming to INPAG the IFRS for SMEs —even if law or regulation in its jurisdiction permits or requires this Standard to be used by publicly accountable entities.
1.6 A subsidiary whose parent uses full IFRS , or that is part of a consolidated group that uses full IFRS, is not prohibited from using this Standard in its own financial statements if that subsidiary by itself does not have public accountability. If its financial statements are described as conforming to the <i>IFRS for SMEs</i> , it must comply with all of the provisions of this Standard.	G1.13 A subsidiary whose parent uses full IFRS , or that is part of a consolidated group that uses full IFRS, ~~is not prohibited from using this Standard~~ may use INPAG in its own financial statements if that subsidiary by itself does not have public accountability. ~~If its financial statements are described as conforming to the IFRS for SMEs, it must comply with all of the provisions of this Standard.~~
1.7 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use this Standard in its separate financial statements on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with this Standard (see Section 9 <i>Consolidated and Separate Financial Statements</i>), even if it presents its consolidated financial statements in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.	G1.14 A parent entity (including the ultimate parent or any intermediate parent) assesses its eligibility to use INPAG this Standard in its separate financial statements on the basis of its own status without considering whether other group entities have, or the group as a whole has, public accountability. If a parent entity by itself does not have public accountability, it may present its separate financial statements in accordance with INPAG this Standard (see Section 9 <i>Consolidated and Separate Financial Statements</i>), even if it presents its consolidated financial statements in accordance with full IFRS or another set of generally accepted accounting principles (GAAP), such as its national accounting standards. Any financial statements prepared in accordance with INPAG this Standard shall be clearly distinguished from financial statements prepared in accordance with other requirements.