

IFR4NPO Project

Advice and Requests
Technical Advisory Group meeting

6 April 2022
TAGED05





Session outline

- Project update
- Reporting entity – consultation response
- Preface
- Section 1 - NPOs
- Section 2 – Concepts and pervasive principles

Agenda item 1 – Project update

1.1 Advice

- a) Complexity might result from having 5 volumes of guidance and the purpose of the different levels of guidance may not be clear, particularly distinguishing between authoritative and non-authoritative guidance.
- b) Caution against creating a separation between core guidance and application guidance, even on-line as the authoritative guidance should be together.
- c) For those users that rely on hard copy guidance because of poor internet availability, it would be better to have fewer volumes.
- d) New sections being added to the core Guidance may be better placed with other relevant material in the Guidance rather than at the end.

Agenda item 1 – Project update

1.2 Requests

- a) Provide clarity about the reasons for the different levels of guidance and how they are expected to be used in practice to avoid a 'rules based' approach.
- b) Provide further information about how the guidance will appear to users, particularly the on-line format.

Agenda item 2 – Reporting entity – consultation responses

2.1 Advice

- a) The update to the *IFRS for SMEs* Standard will follow the same definition of control as IFRS 10 and guidance about the reporting entity aligned with this definition.
- b) Control may not be seen in the same way for NPOs and may need to be thought about in a different way to make sense for NPOs. Different forms of joint arrangement that involve NPOs also need to be considered.
- c) It may not be appropriate in all circumstances to consolidate – it may be better to have a set of summary information instead. Whilst control is a factual position, the need to consolidate may need to be thought about differently. Combined financial statements may be better than consolidated financial statements.

Agenda item 2 – Reporting entity consultation response



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

2.1 Advice

- d) Consolidation may have a different purpose for the private sector compared to non-profit organisations, but describing the relationship between entities is important.
- e) The combination of IFRS10 definition of control, a rebuttable presumption and additional guidance could be very useful for the sector. There is a question about how to adopt the rebuttable presumption currently in the *IFRS for SMEs* Standard.
- f) Create as few differences as possible to the IFRS for SMEs Standard, draw on existing guidance and use the application guidance to address NPO specific differences.

Agenda item 2 – Part 2 responses

2.2 Requests

- a) Articulate the conceptual base on why to consolidate and the purpose of consolidation to consider what that means for control and application of IFRS 10, particularly in the more nuanced relationships and legal forms operated by NPOs.
- b) Be clear on the principles used in IFRS10 and in developing application guidance keep to principles and avoid a 'rules based' approach. Test what goes in the application guidance by reviewing different sets of guidance available in a number of jurisdictions.

Agenda item 3 – Preface

3.1 Advice

- a) Whilst agreeing with the hierarchy of financial reporting frameworks proposed, it isn't clear how that will work in practice. This can be a sensitive issue and it is important to consider how strictly it will be applied.
- b) Entities should not be allowed to part comply with INPAG, compliance can only be stated if all elements are followed.
- c) It is important to distinguish between compliance and communication. It would be useful for an NPO to describe its implementation plans and where it is on that journey where not fully compliant.
- d) Changes in other accounting standards should not to be anticipated by users of INPAG. It would be helpful to set out the intention of maintaining a static base recognising that there may be jurisdiction specific conditions.

Agenda item 3 – Preface

3.2 Requests

- a) Update references to say IFRS accounting standards when referring to the work of the IASB to differentiate between the work of the ISSB (IFRS disclosure standards).
- b) Set out the development process in the Guidance. Where there is any ambiguity or where the process is not followed allow for this to be explained in the basis for conclusions.
- c) Consider how first time adoption will be disclosed, whether there will be a transition period and disclosures in that period to provide transparency but prevent ongoing selective application of the Guidance.

Agenda item 4 – Section 1 – NPOs

4.1 Advice

- a) There is no effective date in the Guidance and one may be needed for users.
- b) To provide clarity for users of INPAG, can the guidance provide a signal about which types of entity are envisaged to use INPAG.
- c) Government entities are included as an exception in the Guidance, and it could be useful to extend this exception to publicly accountable entities.
- d) The term 'public benefit' may exclude some NPOs, or NPOs may infer that INPAG is not relevant for them. It would be beneficial to say that it can be used by a wider group of institutions.

Agenda item 4 – Section 1 – NPOs

4.1 Advice

- e) The interaction between the characteristics and the indicators are not clear and might be better supported by examples.
- f) Whether an entity is an NPO is a judgement call and it is likely that not all possible scenarios can be covered in the guidance.
- g) There is a potential disconnect between leaving the decision to each jurisdiction about to which entities INPAG should apply and proposing that publicly accountable entities cannot state compliance with INPAG. This might be best left to each jurisdiction, noting that the IASB are firm in IFRS for SMEs on publicly accountable bodies.
- h) The basis for conclusions on voluntary funding refers to a more expanded view on types of voluntary funding. This does not appear to be reflected in the drafting.

Agenda item 4 – Section 1 – NPOs

4.2 Requests

- a) Consider including in the authoritative guidance a statement that makes clear that the intention is not to 'rule out' the use of the Guidance by entities. This should be supported in the basis for conclusions.
- b) Review the drafting of G1.10 to make sure it delivers what was intended for NPOs that have public accountability.
- c) Consider how the relationship between the characteristics and the indicators are positioned and provide better linkage between the two.

Agenda item 4 – Section 1 – NPOs

4.2 Requests

- d) Redraft the indicator on financial returns to separate out the absence of financial returns from the requirement to distribute net assets to other NPOs on dissolution.
- e) Provide a few examples in the INPAG suite of guidance tied to principles to provide a sense of the different types of organisations that might be NPOs and build this through authoritative guidance into the non-authoritative guidance.
- f) Soften the proposal that publicly accountable entities cannot state compliance with INPAG, because there is not a full suite of NPO standards as with IFRS. Leave it as a judgement call as to whether INPAG will meet the requirements of all users. Also consider disclosures and transitional arrangements.

Agenda item 5 – Section 2 – Concepts and pervasive principles

5.1 Advice

- a) The financial statements are included in section 2. This may not be needed at the conceptual level and can be dealt with in subsequent sections.
- b) Recognising the importance of the presentation on GPFRs, it's not clear that this is a concept and pervasive principle. This could be separated into another section.
- c) In drawing on both the IASB and IPSASB conceptual frameworks in developing the NPO concepts and pervasive principles make clear which is being used. Colour coding may be useful for the Exposure Draft.
- d) The core guidance together with the application guidance should be seen as one set of guidance with the core guidance succinct and the application guidance elaborating on the principles.

Agenda item 5 – Section 2 – Concepts and pervasive principles

5.1 Advice

- e) The balance of emphasis on the information needs of primary users of GPFRs is on accountability rather than decision making, and this should be more balanced. It may be helpful to use the term resource allocation instead of economic decision making.
- f) The users of the GPFRs should be brought forward from the basis of conclusions into the core guidance.
- g) If financial statements are published and freely available then that meets the accountability aims of INPAG.
- h) Equity can be viewed as synonymous with net assets and the difference is not clear and whether equity is a separate element. A clearer definition of equity is needed and examples would be helpful to understand how it is different to net assets.

Agenda item 5 – Section 2 – Concepts and pervasive principles

5.1 Advice

- i) There need to be clear criteria to separate transactions that impact income from those that impact net assets of an NPO where these are tied to financial statements.
- j) The term net assets may be viewed as a mathematical formula rather than as a defined term.
- k) Unrestricted reserves are really important as there is a low level of understanding of their role in financial resilience.
- l) Take care that restrictions are not defined too broadly and that it is clear what is enforceable and what is designated. Note also that the term 'unrestricted' might not be commonly understood.

Agenda item 5 – Section 2 – Concepts and pervasive principles

5.2 Requests

- a) Consider whether the presentation of GPFRs should be in a separate section.
- b) Explain the source of the framework material for the concepts and pervasive principles and whether its use is conceptual or pragmatic for the purposes of INPAG.
- c) Reproduce the comparison table between the IASB conceptual framework and the IPSASB conceptual framework.
- d) Be explicit about why IFRS for SMEs content is in the core guidance or application guidance so that it is principles based.

Agenda item 5 – Section 2 – Concepts and pervasive principles

5.2 Requests

- e) Socialise further with the PAG and DRG the section of INPAG that describes that if a user has the power to request other information that means that they are not a primary of GPFRs.
- f) Review the discussion in the IPSASB conceptual framework regarding the use of net assets and the relationship with equity.
- g) Examine further 'restricted and unrestricted' funds in considering 'net assets' and explore 'funds and reserves' as a potential element. Look at terms and definitions currently being used in jurisdictions with NPO standards/guidance and raise as a specific matter for comment in the Exposure Draft.
- h) Review the IPSASB Revenue discussions to see whether conclusions on enforceability, and when potential obligations under an agreement can become actual liabilities if there can be more than one past event, may have relevance.