



IFR4NPO Project

Advice and Requests

Technical Advisory Group meeting

28 September 2023

TAGED14 – Day one





Session outline

- ED3 Overview and key principles
- Fundraising costs
- Classification of expenses
- Equity
- Non-priority topics – Sections 12, 27 and 33

Agenda item 1 – ED3 Overview and key principles

1.1 Advice

- a) A line format for EGAs may be preferable to a columnar format. Where an EGA exists, information about EGA liabilities will be presented and may be sufficient.
- b) Using jurisdictional regulatory requirements as a basis to determine whether a transaction is part of funds with restrictions could result in significant geographic variation. An approach that looks at characteristics that go to the substance of a transaction is preferred.
- c) Movements in funds with restrictions and funds without restrictions should be shown in the notes to the financial statements rather than on the face of the Statement of Income and Expenses.
- d) The moral or ethical issues associated with transactions should be considered alongside users expectations about how those transactions are then presented. It was noted that the nature of NPOs may mean that all transactions are essentially moral or ethical.

Agenda item 1 – ED3 Overview and key principles

1.1 Advice

- e) A key defining characteristic for inclusion in funds with restrictions is that any constraint is externally imposed.
- f) Designation is associated with an internal rather than external imposition.
- g) Recognition in some jurisdictions can be on an acquittal basis rather than earned basis and funds can also be permanently or temporarily restricted.
- h) EGAs are not likely to be part of reserves as revenue in advance will be shown as a liability and expenses ahead of achievement of a satisfying an EGO as an asset (work in progress).

Agenda item 1 – ED3 Overview and key principles

1.1 Advice

- i) Disclosure of the judgements concerning the presentation of transactions that are determined to be subject to an external imposition could be helpful.
- j) Significant additional application guidance will be helpful to explain the core proposals to cover the flexibilities that are available including where funds are required for a subsequent period.
- k) The needs of users of the financial statements such as lenders should be considered to ensure that we don't lose sight of these requirements that may be different to accountability to donors.
- l) The movement in funds note could be part of the Statement of Changes in Net Assets rather than a separate note.

Agenda item 2 – Fundraising costs



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

2.1 Advice

- a) Investment management costs are more closely aligned with commercial activities.
- b) The reselling of donated goods could be fundraising, but typically commercial activity is not considered fundraising. There could be enterprises where it is unclear about what is fundraising and commercial activity.
- c) A concern of external stakeholders is that their gift or grant is being managed cost effectively and as a consequence how much money went directly to the cause. Also, a question about how the associated revenue is being classified to understand the fundraising costs.
- d) There were diverse views on whether commercial trading activity and investment costs should be part of fundraising.
- e) Some entities might like to see commercial and investment information, but there is a presentational issue to demonstrate effectiveness. The principal of directly attributable costs related to fundraising could be elevated where significant.

Agenda item 2 – Fundraising costs

2.1 Advice

- f) Differentiate between income generating (eg subsidised activities) and fundraising activities, addressing the purpose of the activity, materiality and the need identify for fundraising information.
- g) Consider the interaction with requirements to disclose accounting policies and whether fundraising disclosures need to be drawn out separately with associated judgements.
- h) The definition of fundraising costs may be a bit circular as drafted and cumulatively the expense disclosure requirements may be too onerous and not aligned. Generally, NPOs cannot cut expenses in many different ways.
- i) Section 23 covers cost to obtain funding, and need to be clear how this relates to fundraising and whether this can be recovered.
- j) Need to be clear whether fundraising costs can be capitalised.

Agenda item 1 – ED3 Overview and key principles

1.2 Requests

- a) Distinguish between campaigns/drives to raise funds versus ongoing activity, differentiating between income generating (ongoing activity) and specific fundraising. Frame these on a principles basis to discuss with the PAG and DRG.
- b) Look at the tax law requirements in Canada.

Agenda item 3 – Classification of expenses

3.1 Advice

- a) Too many options will prevent uniformity and consistency. The spectrum of NPOs might mean that it is useful to allow choice. Over time there could be coalescence. Additional information could be provided by way of segmental analysis or other notes. Choosing a classification will put a stake in the ground to which consultees can respond.
- b) Clarify what is meant by a mixed classification and the nature of the choices available.
- c) A rebuttable presumption of alignment between the natural classification in the supplementary statement and the Statement of Income and Expenses could be used unless this doesn't provide the most useful information to users of the financial statements, with an explanation of the rationale for rebutting the presumption required.
- d) There should be a drive to natural classification as this is less likely to create a burden.
- e) There is a risk that the narrative disclosures become boilerplate and/or create a burden. There is a need to ensure that they provide useful information.

Agenda item 3 – Classification of expenses

3.1 Advice

- f) Consideration should be given as to whether all costs (particularly support costs) should be reallocated where a functional or mixed analysis is used or whether the intention is for unallocated support costs.
- g) There may be other important information like research and development and not only impairment and this should be clarified.
- h) Materiality should be a factor in mandatory disclosure requirements, but not with regard to ex gratia payment as they are material by nature.
- i) The cost of managing investment portfolios could be a mandatory disclosure.
- j) Clarity is required on the scope of key management personnel and in particular whether it includes all of the executive team and whether employee costs include key management personnel. Volunteer time should be separate to employee costs.

Agenda item 3 – Classification of expenses

3.1 Advice

- k) The audit of an overhead rate linked to support costs would be useful for those NPOs that require an overhead rate for donor reporting to ensure consistency.
- l) A definition of support costs is needed to make clear that they are organisation wide expenses. Consideration needs to be given to the relationship with supplementary information and the impact on complexity, particularly for the primary financial statements.
- m) Check to see how mandatory disclosure align with or duplicate mandatory regulatory disclosures.
- n) Rename 'ex gratia' to 'other material transactions' and consider the impact of fraud, to capture transactions that might have an impact on a user's understanding of the financial position, management's use of resources and information that might be useful to regulators.

Agenda item 3 – Classification of expenses

3.2 Requests

- a) Include a rebuttable presumption that a natural classification of expenses is used unless this doesn't provide the most useful information to users of the financial statements, with a requirement that the rationale for an alternative classification is disclosed if used.

Agenda item 4 – Equity

4.1 Advice

- a) The examples of liabilities provided in the papers might not meet the definition of an obligation in the conceptual framework. Agree that equity is different for non-profits, but equity does exist.
- b) There is a key question about what happens to accumulated surpluses that are not distributable and the nature of those items and clarify the relationship with net assets as distinct from equity. It is useful to understand the extent to which those NPOs that have equity also have funds with restrictions.
- c) Control is important, but there is a need to look at the different types of equity instruments. In the UK both Housing Associations and Community Interest Companies have share capital. The existence of equity is likely to be jurisdiction specific, noting that many have seed capital.
- d) Examples need to be clear, particularly to differentiate equity that provides a participating interest and that which does not.
- e) There is an important link between what is considered to be restricted and what is available to those with a participating interest.

Agenda item 4 – Equity

4.1 Advice

- f) Development of the conceptual framework in Australia has noted that the 'community' can be considered the owner of net assets.
- g) There is also differentiation between equity and control as control can be effected through means other than equity. Also, a participatory interest, where there is no control.
- h) An equity investment needs to be defined and considered in the context of the title of Section 22, noting that equity in IFRS for SMEs is residual but Section 22 is focused on equity instruments. Consider how to update Section 22 without getting into a substantial review, perhaps using a preamble to position the content.
- i) It is also important to identify the relationship between assets and liabilities and to specifically address the concept of net assets. Net assets in Canada is an element.

Agenda item 5 – Non-priority topics Sections 12, 27 and 33

5.1 Advice

- a) If a donated asset can be sold it should be fair valued at highest and best use and if it cannot be sold it should be fair valued with reference to its service potential.
- b) Check examples support the principles and consider a new example relating to software instead of a tangible asset. Ensure that there are examples for each level in the fair value hierarchy.
- c) The fair value examples on donated assets may best be positioned in Section 23.
- d) As some jurisdictions prove tax receipts for donated items, this could be used for fair value.

Agenda item 5 – Non-priority topics Sections 12, 27 and 33

5.1 Advice

- e) Review the connection between paragraph G12.5 and AG12.4 with respect to restrictions and consider whether all the guidance should be in the same place.
- f) Service potential is a key concept for non-profits and its application should be explained in relation to fair value, particularly with respect to how this is to be interpreted by the valuation market.
- g) The proposal to use the term operational unit could be misunderstood because it changes the organisational level to which an impairment testing is applied and may be used elsewhere in another way. Cash generating unit is worth widening to include non-cash generating units.
- h) Review the sentences relating to the impairment of inventory to reduce their length.

Agenda item 5 – Non-priority topics Sections 12, 27 and 33

5.1 Advice

- i) Look at the drafting around the grouping of assets. Impairment in the context of service potential is likely to be at an asset level.
- j) Look at the positioning of the two extra related party exemptions where a board member may be a donor or service recipient. Also consider the role of materiality in relation to disclosures and whether amounts are on the same terms as other donors/beneficiaries.
- k) Service potential as a potential transaction to be disclosed for a related party is not clear.
- l) Note that historically transactions with government entities has been exempted from related party disclosure to reduce disclosure burdens.

Agenda item 5 – Non-priority topics Sections 12, 27 and 33

5.2 Requests

- a) Explain in the basis for conclusions the imperfections in relation to the application of service potential to derive fair values, as measurement issues are largely not being tackled in this phase of the development of INPAG.
- b) Cross reference the examples in the IFRS for SMEs on fair value to clarify the NPO context.
- c) Include a specific question about the use of the term operational unit.
- d) Define operating unit as cash generating or non-cash generating unit.

Agenda item 5 – Non-priority topics Sections 12, 27 and 33

5.2 Requests

- e) Provide application guidance in relation to the exemption for governing board members where they are a donor or a service recipient.
- f) Explain in the basis for conclusions that service potential has not been included as a disclosure point as it doesn't exist without another asset or service.
- g) Explain in the basis for conclusions why the exemption in relation to government entities is being retained.

Acronyms

Acronym	Full name	Description
ED	Exposure Draft	A document published by the INPAG Secretariat to solicit public comment on proposed reporting guidance
IFRS	International Financial Reporting Standards	A set of accounting standards developed by the International Accounting Standards Board (IASB) for use by profit making private sector organisations internationally
INPAG	International Non-profit Accounting Guidance	High quality, trusted, internationally recognised financial reporting guidance for NPOs being developed as part of IFR4NPO.
NPO	Non-profit Organisation	For the purposes of INPAG, these are organisations that have the primary objective of providing a benefit to the public, direct surpluses for benefit of the public, and are not government or public sector entities.
SMC	Specific matter for comment	A question raised in a consultation document, including the Exposure Drafts on which specific feedback is sought