International Non-Profit Accounting Guidance Part 3

Basis for Conclusions

INPAG

INPAG

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[1] Status refers to whether the *IFRS for SMEs* Accounting Standard has been updated to reflect NPO-specific requirements. Further explanation can be found in the Invitation to comment.

Section 2 – Concepts and pervasive principles

As part of the development of the content of Exposure Draft 3, consequential amendments are proposed to equity and the definition of funds with restrictions. These amendments reflect respondent feedback on Exposure Draft 1 in relation to equity and the presentation of funds with restrictions.

Equity

BC2.35 Although most respondents were supportive of the proposals for equity included in Exposure Draft 1 (ED1), there were several who disagreed for a number of reasons. Some argued that equity as defined could not exist for an NPO at all as this would mean the entity was for-profit. Others noted that equity should be used in the same way in INPAG as it was in the *IFRS for SMEs* Accounting Standard (ie the residual interest in the assets of the entity after deducting all its liabilities), with no need to introduce a separate concept of net assets.

BC2.36 While not agreeing with all these responses, on reflection the Secretariat accepted that there were issues with the ED1 proposals. These became particularly apparent as initial work was undertaken on modifying Section 22 Liabilities and equity for the NPO context. At the heart of this issue was the need for clarity on the characteristics of equity instruments for NPOs, and the extent to which these provide ownership and/or entitlement to the net assets of an NPO. Questions then arise about what kinds of financial instrument might be classified as a liability or equity, and how equity as defined in Section 22 of the *IFRS for SMEs* Accounting Standard interacts with the proposed INPAG definition.

BC2.37 In order to gain a better understanding of what kinds of equity instruments NPOs might have and what entitlements this gives to holders of equity claims, a survey was conducted. This provided a range of responses. While some respondents indicated that there was the possibility of share capital or a similar form of equity, these did not appear to provide an entitlement to anything other than a return of funds. As such they appeared more similar conceptually to liabilities.

BC2.38 The Secretariat further examined the interplay between ownership and equity and the position of net assets. This included focusing on the extent to which control is obtained over the NPO by external parties when they provide funding to the NPO in addition to the establishment of a financial interest in the net assets of the NPO.

BC2.39 Initial thoughts were taken to the Technical Advisory Group (TAG) at its September 2023 meeting. TAG Members agreed that the guidance related to equity included in Exposure Draft 1 needed to be revisited. They also agreed that net assets be defined as a financial statements element and that the definition of equity should be examined.

BC2.40 The Secretariat subsequently updated the definition of net assets as a financial statement element, so that it is 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'. They proposed that equity could be recognised as part of net assets where the holders of equity claims have established a financial interest in some of the net assets of the NPO as a result of equity arrangements.

BC2.41 TAG members were supportive of the changes but felt that rather than redefine equity it would be preferable to refer to equity claims instead in the NPO context. This was agreed by the Secretariat, with equity claims being defined as the financial interest in the net assets of an NPO that is due to holders of those claims. Application guidance was also updated to reflect these changes.

Fund accounting

BC2.42 The definition of funds with restrictions is now held in Section 36 *Fund accounting* and so have been removed from Section 2. The Basis for Conclusions for Section 36 explains the rationale for the development of a section on fund accounting. Text in Section 2 is now titled Fund accounting and has been amended to focus on the need to identify funds and their subsequent classification for presentation purposes.

Section 5 – Statement of Income and Expenses

BC5.6 In ED1 the separate presentation of funds with restrictions and funds without restrictions on the Statement of Income and Expenses was required. In view of the feedback from the ED1 consultation process and considerations in the development of Section 36, it is proposed to remove this requirement as the disclosures required by Section 36 supersede the original proposals. This is expected to simplify the information presented in the Statement of Income and Expenses.

Section 7 – Statement of Cash Flows

BC7.7 The International Accounting Standards Board issued an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard on 28 March 2024. This provides new guidance on supplier finance arrangements.

BC7.8 Views were sought on the new content from the Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG). The PAG were of the view that the use of supplier finance arrangements was not common by NPOs.

BC7.9 TAG members considered the documented approach used by the project in deciding whether to make amendments to the *IFRS for SMEs* Accounting Standard. They were of the view that had the new text been in the original document, no significant amendments would have been proposed.

BC7.10 The additional text has therefore been retained in full, with amendments made to reflect the terminology used in INPAG and ensure alignment with other Sections. A specific matter for comment has been included relating to this additional text.

Section 12 – Fair value measurement

BC12.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Fair value measurement was not included as a prioritised topic.

BC12.2 However, as a result of the high level review of this Section a limited number of amendments have been made. When assessing benefits generated by an asset, the term economic benefit has been widened to include service potential as this will be a factor in determining highest and best use, particularly when there is a limitation on the use of an asset.

BC12.3 The *IFRS for SMEs* Accounting Standard on fair value does not specifically consider when fair value is the deemed cost of a donated asset on initial recognition. The existing guidance can, however, be applied to the subsequent measurement of such assets. The Technical Advisory Group (TAG) discussed the importance of the concept of service potential for NPOs. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the guidance available to assist in applying this concept. Topics related to measurement could be considered in a future phase of INPAG development.

BC12.4 To assist NPOs, a small amount of application guidance has been added that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 fair value when related to the ‘deemed cost’ of donated inventory and other donations in-kind. It mirrors the application guidance to Section 13 *Inventories*, and was considered preferable to adding text to the core guidance. The Secretariat views this additional guidance as a consequential change also arising from Section 23 Part I *Revenue from grants and donations*.

BC12.5 TAG members suggested that in the application guidance a distinction be made between the fair value measurement basis of donated assets that can only be used by the NPO for a specific purpose and those that have no restrictions and could be sold. They were of the view that if a donated asset can be sold, its fair value should be its open market value, but that if it cannot be sold its fair value should be determined with reference to its service potential. The Secretariat agreed with this view and these distinctions are made in the Application Guidance.

BC12.6 The Secretariat considered whether further application guidance would be useful, particularly in applying the concept of highest and best use to NPO assets. The Secretariat's view is providing such application guidance might infer a level of review of this section that has not been carried out. Therefore fuller application guidance is not proposed.

BC12.7 The implementation guidance included as part of the *IFRS for SMEs* Accounting Standard has been moved to the INPAG Implementation Guidance. All examples could be relevant to NPOs, except perhaps example 2 and additional examples have been added to cover volunteer time and a donation that exceeds the operating requirements of an NPO. The terminology in the examples reflects that in INPAG.

BC12.8 No other significant editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Changes have been made to align with other sections including the removal of references to share-based payments. Minor changes to terminology are proposed to align with other sections.

Section 14 – Investments in associates

BC14.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for associates was not included as a prioritised topic.

BC14.2 No major editorial changes are proposed for accounting for associates from the *IFRS for SMEs* Accounting Standard. A Technical Advisory Group (TAG) member queried whether Section 14 should be retitled to 'Beneficial interest in associates' as beneficial interest is used rather than investment in Section 9 *Consolidated and separate financial statements*. Noting that references are made to investing in associates in Section 9 and that some respondents to Exposure Draft 1 (ED1) did not agree with the change in terminology, pending the completion of the analysis of the ED1 and discussion by the TAG, it is proposed to retain the existing section name.

BC14.3 The TAG agreed with the proposed changes to terminology to align with other sections, including the replacement of the term "subsidiary" with "controlled entity, "Investor" with "investing NPO" and "ownership interest" with "beneficial interest".

BC14.4 It was noted that significant influence is described in G14.3 in terms of power to participate in the financial and operating policy, with the description of the presumption of control related to voting power and ownership. As noted in Section 9, power may exist in other forms, particularly in relation to other NPOs. However, as this section is not being fully reviewed no amendments are proposed. No application guidance is proposed, although the guidance in Section 9 is expected to be useful.

Section 15 – Joint arrangements

BC15.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for joint arrangements was not included as a prioritised topic.

BC15.2 In the application of the guidance, when referring to transactions between a party to the joint arrangement and the joint arrangement, edits have been made to make clear where this is only referring to the NPO. No other significant editorial changes are proposed for accounting for joint arrangements from the *IFRS for SMEs* Accounting Standard, other than minor changes to terminology to align with other sections.

Section 16 – Investment property

BC16.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for investment property was not included as a prioritised topic.

BC16.2 The text in this Section is drawn from the equivalent section of the *IFRS for SMEs* Accounting Standard where investment property that has been acquired is required to be measured at cost on initial recognition. It is, however, possible that an NPO receives donated property that would be considered investment property, where the donated asset would not be used directly for the NPO's missional purposes. As a consequence, an additional paragraph has been added to distinguish between purchased and donated investment property. The new paragraph addresses the initial measurement of the investment property on receipt. It requires a donated investment property to be measured at fair value in line with Section 12 *Fair value measurement* on initial recognition, which becomes its deemed cost. The Secretariat consider this to be a consequential amendment from Section 23 Part I *Revenue from grants and donations*.

BC16.3 Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for NPOs in measuring investment property. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the additional guidance provided to assist in applying this concept.

BC16.4 TAG members also considered the situation where NPOs hold a property to deliver activities to meet its missional objectives that might fall within the definition of investment property. Given the nature of such assets, INPAG clarifies that such assets (eg social housing) shall not be classed as investment property but instead as property, plant and equipment. Such assets should follow the requirements of Section 17 *Property, plant and equipment*.

BC16.5 Some property assets could comprise both an investment property and property, plant and equipment. Section 16 requires that mixed use property shall be separated between investment property and property, plant and equipment. It was noted that where an asset has mixed used (part commercial and part for service delivery) that judgement may be required in determining which section to apply. The Secretariat expect that the judgement will be based on the principle purpose to which the asset is used.

BC16.6 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have also been included to align with other sections.

Section 17 – Property, plant and equipment

BC17.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first edition of INPAG. Measurement issues associated with property, plant and equipment was proposed in the Consultation Paper, but this did not attract sufficient support and foreign currency translation was prioritised instead.

BC17.2 Consideration was given to whether the scope of Section 17 needed to be amended to make clear that assets sharing characteristics with an investment property but primarily used for service delivery are to be treated in accordance with Section 17. This was considered a helpful clarification and as a consequence additional text has been added.

BC17.3 Consistent with investment property, an additional paragraph has been added to the guidance for property, plant and equipment for assets that have been donated. Similarly, property, plant and equipment that has been donated shall be measured on initial recognition at its fair value in line with the guidance in Section 12 *Fair value measurement*. This measurement value is then used as the deemed cost of the donated asset. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*. Technical Advisory Group (TAG) members discussed the importance of the concept of service potential for non-profits in measuring property, plant and equipment. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations to the additional guidance provided to assist in applying this concept.

BC17.4 No additional application guidance is proposed for Section 17 as the Secretariat is of the view that the additional guidance in Section 12 is sufficient to address the needs of those NPOs that have donated property, plant and equipment.

BC17.5 TAG members were of the view that additional guidance on heritage assets would be useful. It was agreed that a reference would be made in Section 38 *Transition to INPAG,* noting that heritage assets have not been prioritised for inclusion in this version of INPAG.

BC17.6 Other than for these points, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 18 – Intangible assets other than goodwill

BC18.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for intangible assets other than goodwill was not included as a prioritised topic.

BC18.2 Consistent with investment property and property, plant and equipment, an additional paragraph has been added to the section for donated assets. The Secretariat did not initially propose this adaptation, but Technical Advisory Group (TAG) members were of the view that intangible assets can be acquired by way of a donation, for example the donation of the copyright of a book.

BC18.3 On initial recognition an asset is measured at fair value in line with the guidance in Section 12 *Fair value measurement*, which becomes its deemed cost. TAG members were of the view that service potential was important in considering the measurement of intangible assets by an NPO and that this measurement basis could be used as the deemed cost of the donated asset. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations on the guidance provided to assist in applying this concept. This is also considered a consequential amendment from Section 23 Part I *Revenue from grants and donations*.

BC18.4 Other than for this point, only minor editorial changes are proposed from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been included to align with other sections.

Section 19 – Business combinations and goodwill

BC19.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for business combinations including goodwill was not included as a prioritised topic.

BC19.2 One of the key issues considered by the Secretariat was the application of the term 'business' to NPOs. Although it is possible that NPOs may acquire other businesses it is perhaps more likely that they merge operations with another NPO. It is acknowledged that NPOs may not see themselves as carrying out a business, but the principles arising from the accounting set out in this Section remain relevant.

BC19.3 To address NPO specific circumstances the Secretariat has included two additional examples of control being exercised through the power to appoint or remove the majority of an NPO's governing body and by entering into a formal transfer agreement. The latter is particularly important given the expectation that business combinations may involve the merging of two or more NPOs. The Secretariat view these changes as consequential amendments arising from the proposals in Section 1 *Non-profit organisations* about the nature of NPOs and Section 9 *Consolidated and separate financial statements* that describes the application of power in an NPO context.

BC19.4 Building on this concern, the Technical Advisory Group (TAG) was keen to make clear that an organisation that is a business in the context of this Section can be an organisation that provides services to beneficiaries, not just sales to customers. This has been addressed through the description of businesses in the application guidance and a new paragraph has been inserted to make clear that the requirements of this section will apply to businesses of all sizes, including small organisations.

BC19.5 Some TAG members were concerned that the term business combination might be misunderstood, particularly when two NPOs merge. In this Section the term 'business' is pervasive and to make amendments as part of a high-level review might result in unintended consequences. As a result, the

Secretariat proposed, and the TAG agreed, to maintain the terminology of 'business', subject to the amendments outlined. Feedback on the use of this terminology will be sought as part of this Exposure Draft.

BC19.6 The *IFRS for SMEs* Accounting Standard includes guidance on the definition of a business, particularly in differentiating between an asset or group of assets and a business. Illustrative examples are also provided. The Secretariat is of the view that this application guidance and illustrative examples are useful and relevant to NPOs. As noted in BC19.3 the description of businesses in the application guidance has been amended and additional text has been added to cover NPO combinations motivated by considerations related to their mission as well as financial considerations.

BC19.7 The TAG raised a question about whether complexities relating to goodwill should be avoided where two NPOs combine and where one has net liabilities. The Secretariat does not have sufficient evidence to determine whether this is a significant issue for NPOs and evidence will be sought through this Exposure Draft.

BC19.8 The TAG questioned whether there should be a simplification in the requirements where two NPOs both with positive net assets combine and this would otherwise result in the application of the requirements for a bargain purchase. There were concerns that the cost of applying such requirements would be disproportionate to the benefit from applying the procedures for NPOs. The Secretariat agreed with this concern and has removed the requirements for the additional tests set out in G19.25.

BC19.9 Other than these changes, there have also been minor changes to terminology to align with other sections. References to share price and equity have been removed where this is considered to not be relevant to NPOs.

Section 20 – Leases

BC20.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for leases was not included as a prioritised topic.

BC20.2 A high level review did not identify any significant editorial changes, and no major changes have been made to Section 20 *Leases* from the *IFRS for SMEs* Accounting Standard other than minor changes to terminology to align with other sections.

BC20.3 However, a Technical Advisory Group (TAG) member raised the question of the accounting for peppercorn/concessionary leases, where the lease payments are below fair value of the property being leased or the lease is below market value. This is a significant issue, and as this section is not subject to full review, it is outside the scope of the current work. Peppercorn and concessionary leases could be considered in a future phase of INPAG development as part of a full review of accounting for leases.

Section 22 – Liabilities and equity claims

BC22.1 Amendments to Section 2 *Concepts and Pervasive Principles* for the NPO context have introduced net assets as a financial statement element. Net assets are defined as 'the residual available to the NPO to achieve its objectives after deducting all its liabilities from its assets'.

BC22.2 It is recognised that for some NPOs, holders of equity claims may have established a financial interest in some of the net assets of the NPO as a result of equity arrangements. To distinguish between this and the situation generally prevalent in private sector entities where equity is the residual interest in the assets of the entity after deducting all its liabilities, the Secretariat agreed with the Technical Advisory Group that Section 2 and subsequently this Section would refer to equity claims rather than equity in the NPO context. Equity claims being the financial interest in the net assets of an NPO that is due to holders of those claims. This Section was amended to reflect this distinction.

BC22.3 Given the nature of NPOs and the circumstances in which they are likely to have share capital, the paragraphs related to the sale of options, rights and warrants, extinguishing financial liabilities with equity instruments and treasury shares have been removed. The paragraphs on convertible debt or similar compound financial instruments and capitalisation or bonus issues and share splits have been retained as it is possible that an NPO has control of, acquires or merges with another entity that has share capital. The guidance may be useful in these circumstances.

BC22.4 In addition to this change, an example of a puttable instrument that is not relevant in the NPO context has been removed from this Section, and an example of an instrument that can only be redeemed at par or an index-linked amount has been included. This later example is intended to reflect member share type arrangements that are common for some NPOs.

BC22.5 Consistent with the proposal that share-based payments do not form part of INPAG given the nature of NPOs, references to Section 26 Share-based payments have been removed from this Section.

BC22.6 Other than these amendments, changes are editorial in nature to reflect the terminology being used in INPAG.

Section 24 Part II – Classification of expenses

Consultation paper – issues identified and approaches

BC24.49 The Consultation Paper identified that information about an NPO's expenses was important to support stewardship, transparency and accountability. It was recognised, however, that not all stakeholders would be interested in the same information but also that providing multiple analyses of expenses would create a burden for NPOs and might not support comparability.

BC24.50 A number of financial reporting challenges were highlighted, including:

- determining the most appropriate disclosures for inclusion in a single set of guidance for NPOs;
- analysis of expenses by function may not aid comparability – due to differing business models, programmes and activities;
- allocating costs to functions may involve considerable judgement;
- analysis of expenses by nature might be more useful to support reporting for regulatory purposes; and
- analysis by both nature and function may not be readily produced from an NPO's accounting system and result in additional costs.

BC24.51 The Consultation Paper noted that international frameworks are consistent in requiring that an entity presents, either on the face of the statement of financial performance or in the notes, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is more relevant and reliable. At a jurisdiction level it was noted that while many have standards or guidance that are consistent with international accounting standards, others have taken alternative approaches. This included different requirements depending on the type of NPO to reflect their specific reporting needs, requirements to provide functional expenses grouped by program or support as well as a nature of expense categorisation, and hybrid approaches that mix the nature of expenses and the function of expenses analyses.

BC24.52 This diversity of approaches saw four alternatives put forward for consideration in the Consultation Paper. These were:

- use of existing international standards;
- removing choice and requiring one method of presentation;
- requiring both natural and functional expense analysis; or
- combining natural and functional analysis in a mixed approach.

BC24.53 Respondents supported the description of the issue, and the advantages and disadvantages noted for the alternatives but were split as to which alternative provided the best solution for NPOs. Some respondents highlighted the need for choice and flexibility, while others focused on the benefits of consistency and comparability that limiting choice would provide. There was no clear view on the most suitable alternative.

Approach to guidance development

BC24.54 Following the publication of the Consultation Paper there were also two significant developments. The first was the advancement of proposals for optional Supplementary statements covering both natural and functional spend. The second was the continued evolution of the IASB's Primary Financial Statement project, which at that time was expected to allow an analysis by nature of expense, functional analysis or a mix of the two. It was expected to set out which natural expenses must be presented when a functional analysis is chosen.

BC24.55 Taking account of these developments the Secretariat proposed draft guidance for discussion with the project's advisory groups. The proposals permitted an NPO to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation (that is partly natural expenses and partly functional expenses), whichever provided information that is more relevant and reliable to the users of the financial statements. Where an NPO presented functional line items it was proposed that they shall also disclose a narrative description of the material expense types based on their nature, that were included in each functional line item.

BC24.56 As analysis by function of expense and analysis by mixed presentation would involve allocating and aggregating some or all expenses to the activity to which the consumed resource relates, the proposed guidance provided principles on attributing costs to activities for this purpose.

BC24.57 In recognition that allowing a choice of method may lead to significant inconsistencies in the information provided by NPOs, even where the NPOs are similar in nature, the Secretariat also proposed that a number of expense disclosures would also need to be included in the financial statements.

Rebuttable presumption that a natural classification would provide the more relevant and reliable information

BC24.58 While supportive of the overall approach, advisory group members and a focus group that was held to discuss the proposals expressed concern that the freedom to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation would not support comparability. It was felt that a single method of expense classification should be promoted, even if the presentation under that method was not prescribed.

BC24.59 A 'by nature' analysis was considered to be the most simple to prepare, which was expected to make it easier to adopt the INPAG requirements. It was noted that most NPOs would be expected to use accounting software that would permit the production of general purpose financial statements using a natural classification. There would also be expected to be significantly less diversity between by nature classification categories as compared to functional categories.

BC24.60 The Secretariat agreed that the proposed guidance be amended. The proposed guidance permits a classification based on the nature, the function, or a mixed presentation, but there is a rebuttable presumption that the more relevant and reliable information to users will be provided by a natural analysis of expenses. If the presumption were rebutted, and a classification based on the function of expenses or a mixed presentation is used, it was agreed that an explanation by way of a note would be required as to why an alternative analysis provides information that is more relevant and reliable to users.

Disclosures

BC24.61 Additional disclosures were proposed in an initial draft of the guidance that would have required all NPOs to provide information on programme and support expenses, key management personnel, employee remuneration, expenses on grants and donations, expenses related to fundraising, ex gratia payments and volunteer benefits.

BC24.62 Advisory groups expressed concern that some of these disclosures could create a significant additional burden if applied to all NPOs. The Secretariat agreed to amend the proposals to reduce the requirement and to provide better targeting of where additional information is needed.

BC24.63 Upon further reflection it became clear that some proposed disclosures repeated existing disclosure requirements in other Sections of INPAG or were incremental changes to them. Where this was the case, the Secretariat proposed to remove them from Section 24 Part II and instead amend (where needed) the relevant Section. This was agreed as a general approach to the expenses disclosures.

BC24.64 Following discussion with Technical Advisory Group (TAG) members, the disclosure related to ex-gratia payments was broadened to include losses (including fraud), write-offs and special payments. These types of expenses include transactions that are deemed to be outside what would be expected to be the normal activities of an NPO. While not possible to provide an exhaustive list of expenses that could be included in this disclosure, the Secretariat considered it appropriate to include examples to assist NPOs in applying judgement. The proposed disclosure for volunteer benefits was also retained.

BC24.65 Not all NPOs receive grants that require additional reports and the production of additional information such as support costs. To avoid unintentionally increasing the burden for such NPOs it was decided that only where an NPO produces one or more Supplementary statements using INPAG Practice Guide 1 – Supplementary statements would programme and support expenses be required to be disclosed. These requirements are set out in Section 37 *Supplementary Information*.

Section 24 Part III – Fundraising costs

Consultation paper – issues identified and approaches

BC24.66 Information about fundraising costs was identified as a key issue in the IFR4NPO Consultation Paper. It was highlighted that users often seek to compare fundraising costs to income generated and/or programme delivery costs to assess the efficiency of an NPO. It was also explained that this can sometimes be misleading. For example, fundraising costs are generally incurred before the corresponding income is raised. It was noted that fundraising activities and costs are also not always easy to define, with activities serving multiple purposes and expense allocation subjective.

BC24.67 From a financial reporting perspective, it was noted that there may be benefits to standardising the definition of fundraising costs, addressing general recognition principles and cost allocation, and introducing common presentation and disclosure requirements.

BC24.68 Respondents were supportive of the description of the issue, although noted difficulties in assessing fundraising costs and the potential for their misuse as an efficiency metric.

BC24.69 The Consultation Paper noted that existing international frameworks did not specifically address fundraising costs, and that jurisdictional-level requirements did not provide a single view of the costs of fundraising or recognition and measurement principles. Three main alternatives for inclusion in financial reporting guidance were presented. The first would allow NPOs to use any international framework with NPOs developing their own treatments of fundraising costs. The second would require just one international framework to be followed with disclosure of accounting policy. The third would see new NPO-specific guidance developed requiring fundraising costs to be disclosed based on a standard definition and a list of activities along with the NPO’s accounting policy and cost allocation methodologies.

BC24.70 Respondents were supportive of the list of alternatives, with a significant majority in favour of the development of new NPO-specific guidance. It was noted, however, that an NPO may not be able to report the costs of fundraising in a way that is most relevant to the entity if there is a standard definition of fundraising costs, including a narrow list of the type of expenditure to be classified as fundraising costs. NPOs can have different strategies for raising funds, with the types of fundraising expenditure varying significantly. As such, respondents were of the view that the definition of fundraising costs and activities would have to be sufficiently flexible to accommodate different circumstances.

Scope of fundraising costs

BC24.71 The Secretariat's approach to developing the guidance for fundraising costs took into consideration the broader approach to the classification of expenses, as well as the alternatives in the Consultation Paper and the feedback received from respondents.

BC24.72 Initial proposals discussed with TAG members stated that fundraising costs would be a specified activity that needs to be presented for all NPOs. Guidance would be provided on the principles for identifying and allocating costs to fundraising, including where such costs are shared between fundraising and other activities of the NPO. Guidance would also be provided, where relevant, on how such costs are allocated between funds with restrictions and funds without restrictions.

BC24.73 The scope of fundraising costs was developed by the Secretariat. It proposed that the core category of fundraising costs would relate primarily to event and grant activities. This would include such costs as grant application expenses for both successful and unsuccessful bids, marketing and other direct activities to seek donations, and those associated with the staging of fundraising events.

BC24.74 In addition to these core activities, other potential categories of fundraising activities were considered. Trading and commercial activities undertaken with the single purpose of raising funds for use by an NPO in meetings its objectives were also considered. This reflected the Secretariat's view that while the commercial or trading activity may not in itself be a missional activity, it could be considered a type of fundraising activity. The fundraising costs included would be those of the NPO's trading and commercial operations including costs to sell.

BC24.75 This raised a question surrounding charges that are made for services or goods being provided to service recipients as part of an NPO's mission. The Secretariat's view was that where these charges are part of the NPO's operating model to deliver its mission and not a commercial activity, the costs associated with providing the relevant services or goods would not be included as fundraising costs.

BC24.76 The final area considered for inclusion was investment management fees, such as the costs of administration and portfolio management. These could be relevant where an NPO has large funds such as endowments that need to be effectively managed to generate income for an NPO to apply to its missional purposes. Such costs were seen by the Secretariat as different in nature to other fundraising costs as they could be seen to relate more to the good financial management of existing resources rather than seeking to generate additional resources.

BC24.77 TAG members had mixed views. There was support expressed for a position that the minimum disclosure of information of fundraising costs should be more tightly defined. This position would see fundraising activities and disclosure of costs limited only to activities involving requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

BC24.78 Other members, however, noted that information on costs related to commercial and trading activities such as the selling of merchandise that had the purpose of raising funds for the NPOs mission would be useful for users of general purpose financial reports, particularly if this was the single or main source of funds. Likewise, it was noted that the disclosure of investment management costs as a category of fundraising costs could in some circumstances also provide useful information. A focus group held on the scope of fundraising costs also supported this broader scope and the inclusion of trading and commercial and investment management activities.

BC24.79 TAG members discussed the difference between fundraising and income generation and recognised that there is a fine line in distinguishing between the two.

BC24.80 To reflect the range of views, and in order to elicit stakeholder views, ED3 includes three distinct categories of fundraising activities that NPOs are required to be calculated and disclosed: (i) Donations, gifts, grants and similar transfers, (ii) Commercial and trading and (iii) Investment management. The types of costs that each category of fundraising includes were also updated to reflect focus group and TAG member comments. It was agreed that this approach be tested with a specific matter for comment in ED3.

Multipurpose activities

BC24.81 Principles for calculating fundraising costs were developed using the approach proposed for the classification of expenses, with specific guidance for each category. For expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, it was agreed that where these are material they should be split between those related to fundraising and other activities using INPAG's cost allocation methods.

BC24.82 As some amounts are not likely to be material, a pragmatic exemption has been included. This was initially framed in terms of materiality but this was amended to reference to undue costs or effort instead.

Disclosures

BC24.83 The costs related to each category of fundraising activities are required to be disclosed separately unless an individual category is immaterial. To reflect TAG member comments on what information could be useful to users, guidance was also developed that noted that an NPO may present an analysis of revenue raised alongside the costs associated with the specific activity, provided that the costs are still presented gross.

BC24.84 As multipurpose activities are expected to be relatively common, a requirement to provide a narrative description where activities have more than one purpose and costs have been allocated between these purposes was discussed. A disclosure where allocation has not been made due to materiality was also supported.

Section 27 – Impairment of assets

BC27.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for impairment was not included as a prioritised topic.

BC27.2 Impairment was discussed in developing the Consultation Paper as a potential issue for NPOs as private sector guidance is focused on cash generating assets and many NPO assets are not held to maximise cash generation. However, impairment was not considered to be one of the highest priority topics for inclusion in the first phase of INPAG development.

BC27.3 A change has been made to the impairment of inventories. This change arises from the proposals in Section 13 *Inventories* relating to donated inventory held for distribution at no or nominal consideration. Section 13 includes a proposed new measurement base so that such inventory is measured at its cost adjusted for any loss of service potential. This reflects the primary focus of NPOs on service potential rather than profit generation. This measurement base is used when considering the impairment of those inventories.

BC27.4 In recognition that many NPOs carry out activities that do not maximise cash generation, Technical Advisory Group (TAG) members considered whether specific references to service potential in measuring the value of an asset were required. The Secretariat proposed that the full description of value in use from Section 2 *Concepts and pervasive principles* be included in paragraph G27.15 to make the link to service potential clear. It was acknowledged that given the scope of the topics included in this phase of INPAG that there should be limitations to the guidance provided to assist in applying this concept.

BC27.5 The Secretariat reviewed the indicators of impairment in the *IFRS for SMEs* Accounting Standard and concluded that the existing indicators were potentially relevant to NPOs. The Secretariat further considered whether the non-cash indicators of impairment used in IPSAS 21 *Impairment of non-cash generating assets* would be useful in providing indicators that are more NPO-specific. However, making such changes at this point in time may mislead users about the level of review that has taken place on this section. Also, the Secretariat is aware that IPSAS 21 is currently being updated for consequential amendments arising from IPSAS 47 *Measurement* and may soon be out of date. As a consequence, no changes were made.

BC27.6 The equivalent section of the *IFRS for SMEs* Accounting Standard refers extensively to a cash-generating unit when considering assessments for impairment. While it is not possible to address the NPO-specific issues relating to impairment because a full review of the Section has not been carried out, the term 'cash generating unit' has been amended to 'operating unit'. This has been made to broaden its application away from just consideration of cash generating assets.

BC27.7 TAG members agreed that it was appropriate to amend the guidance for this term, but were concerned that replacing the term 'cash-generating' unit with 'operating unit' might have unintended consequences. This included potential misunderstanding about the organisational level to which impairment testing is applied. The Secretariat proposed to add additional text to clarify that the term 'operating unit' applies to either a cash-generating unit or a group of assets that are non-cash generating. Following further discussion with TAG members, it was agreed that 'operating unit' was the most appropriate term given the level of review and to add 'operating unit' to the glossary. The definition clarifies that it relates to the smallest grouping of an NPO's assets for operational purposes. References to cash-generating assets have been removed.

BC27.8 Other than these changes, no major editorial changes are proposed for accounting for impairment from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been proposed to align with other sections.

Section 28 – Employee benefits

As part of the development of the content of Exposure Draft 3 consequential amendments are proposed to the disclosure of short term employee benefits. These amendments reflect proposals in relation to Section 24 Part II Classification of expenses.

BC28.10 In developing Section 24 Part II *Classification of expenses,* it was decided to extend the disclosures in other sections of INPAG where possible, to eliminate the potential for overlaps in requirements. Consistent with this approach, the disclosures in Section 28 are being extended to include short-term employee benefits (employee costs). No disclosures were required in the draft of Section 28 in Exposure Draft 2.

BC28.11 The cost of employees is often significant for NPOs. It is a cost that attracts interest from users of the financial statements. The inclusion of employee costs was discussed with advisory groups and there was consensus that these should be disclosed.

BC28.12 The proposed additional disclosures in Section 28 will require all NPOs to disclose this information irrespective of the expense classification approach chosen and defines the expenses to be included as employee costs. Where an NPO produces an analysis by nature of expense, employee related costs are likely to be a category of expenses that are disclosed. If the aggregation of costs chosen by an NPO for employee related costs is different to that required by Section 28, then the disclosure in Section 28 will still be required.

Section 30 – Foreign currency translation

BC30.17 Subsequent to the exposure of the draft text on Section 30 *Foreign currency translation,* the International Accounting Standards Board published an Addendum to the draft Third edition of the *IFRS for SMEs* Accounting Standard. This Addendum included new content on lack of exchangeability.

BC30.18 Views were sought on the new content from the Practitioner Advisory Group (PAG) and the Technical Advisory Group (TAG). The PAG were of the view that NPOs frequently encounter situations where there is lack of exchangeability between currencies. Equally, they were of the view that this was not a significant issues for NPOs.

BC30.19 TAG members considered the documented approach used by the project in deciding whether to make amendments to the *IFRS for SMEs* Accounting Standard. They were of the view that had the new text been in the original document, no significant amendments would have been proposed.

BC30.20 The additional text has therefore been retained in full, with amendments made to reflect the terminology used in INPAG and ensure alignment with other Sections. A specific matter for comment has been included relating to this additional text.

Section 33 – Related party disclosures

BC33.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Related party disclosures was not included as a prioritised topic.

BC33.2 It was recognised that NPOs may have governance structures that differ from other organisations and it can be the case that individuals are the trustees or equivalent of more than one NPO. As a consequence, this Section makes clear that a member of an NPO governing body, whether or not they are remunerated is a related party. It also requires that the characteristics of an NPO's governing body's governance arrangements are considered in determining related parties.

BC33.3 In developing the disclosures for the classification of expenses, consideration was given to information about key management personnel and governing body members. Paragraph G33.7 requires the disclosure of key management personnel compensation in total. There were no specific disclosures for governing body members. To provide clarity, additional disclosures to cover their personnel compensation arrangements and expenses have been added. Such disclosures provide transparency for accountability purposes.

BC33.4 Details of the personnel compensation paid to governing board members (if any) and the legal basis of those payments are to be disclosed. The legal basis is important as it is not legal to compensate governing body members in some jurisdictions. There is also a requirement to disclose the nature and amount of all out-of-pocket expenses reimbursed.

BC33.5 The Secretariat has included two new exemptions for the disclosure of related party transactions. Donations made by a governing body member need not be disclosed provided there are no special obligations to amend its normal activities eg use of certain suppliers or sources of inputs. Similarly, services received by a governing body member need not be disclosed where they are received on the same terms as any other eligible individual. Technical Advisory Group (TAG) members supported these amendments where amounts paid or received are on the same terms as other donors or beneficiaries. Application guidance clarifies that that this exemption would not apply to grants that have terms that place obligations on the NPO.

BC33.6 Section 33 is based on a typical private sector group structure and in particular where there are parent to entity type relationships. These kinds of structures may also be relevant to NPOs, particularly if separate legal entities have been created to carry out commercial activities, but less relevant for others. However, without a full review of this section it is proposed to leave the existing language about group relationships largely unchanged.

BC33.7 Section 33 provides an additional exemption from disclosures where a government or another entity under the same control, joint control or significant influence of government controls, jointly controls or has significant influence over an NPO. This exemption in the *IFRS for SMEs* Accounting Standard was introduced to reduce the burden on preparers. This exemption has been maintained to similarly reduce the burden on the preparers.

BC33.8 In reviewing this Section, consideration was given to whether service potential needed to be included within the scope of related party transactions to align with other sections. TAG members were of the view that service potential doesn't exist without another asset or service and therefore was not itself a separate related party transaction. As a consequence this concept has not been included.

BC33.9 Finally, G33.14 broadens one of the disclosure categories from entities with control, joint control or significant influence to entities and individuals, reflecting the broader nature of those who might hold equity claims.

BC33.10 Other than these changes, no major editorial changes are proposed for accounting for related party disclosures from the *IFRS for SMEs* Accounting Standard. Minor changes to terminology have been proposed to align with other sections.

Section 34 – Specialised activities

BC34.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for Specialised Activities was not included as a prioritised topic.

BC34.2 Although the guidance on agriculture and service concession arrangements may be relevant, the Secretariat proposes to seek views on the extent to which NPOs are involved in specialised activities, particularly those related to exploration for, and evaluation of, mineral resources. The need for this guidance is being addressed through a specific matter for comment in this Exposure Draft.

BC34.3 For now, no editorial changes are proposed for accounting for Specialised Activities from the IFRS for SMEs Accounting Standard, other than minor changes to terminology to align with other sections.

Section 36 – Fund accounting

Consultation Paper – issues identified and approaches

BC36.1 The presentation of information in the financial statements is particularly important when resources can only be used for specific purposes. This was included as Issue 7: Financial Statement Presentation in Part 2 of the IFR4NPO Consultation Paper. Views were sought on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.

BC36.2 The Consultation Paper proposed three alternatives as set out in the Basis for Conclusions to Section 3. Although there was no consensus as to the preferred alternative, accountability and meeting users' needs were highlighted as important issues. Responses suggested that fund accounting is essential to ensure the stewardship of funds with restrictions and provide clarity regarding funds that can be used at an NPO's discretion. However, some respondents suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. In developing the material for ED1, specifically Section 2 *Concepts and pervasive principles* and Section 3 *Financial statement presentation,* fund accounting and the need to separate funds with and without restrictions was included with a supporting rationale. Following the responses received, the thinking in this area has been taken forward, and revised proposals developed.

Identification of funds

BC36.3 The key focus of Section 36 is to enable an NPO to identify the types of funds that it has and whether the funds that it has are available for it to use at its discretion or whether there are limitations that mean that funds can only be applied to specific purposes. The guidance acknowledges that not all NPOs will have more than one fund and NPOs may not have any funds with restrictions.

BC36.4 In developing this Section, consideration was first given to whether presentation could be determined from the type of arrangements defined in Section 23 *Revenue* for the purposes of recognition, measurement and disclosure. Section 23 distinguishes between Enforceable Grant Arrangements (EGAs), where the grant recipient has a present obligation to perform and Other Funding Arrangements (OFAs), where the grant recipient does not have a present obligation to perform.

BC36.5 Initial proposals also looked at whether regulatory requirements should be another factor in determining whether transactions should be presented as funds with or without restrictions. This was discussed by a focus group established for this purpose and by the Practitioner Advisory Group. Both groups had concerns about such an approach. This was because requirements differ significantly globally and could lead to different treatments of similar activities across jurisdictions.

BC36.6 Both groups were concerned about whether the initial proposals would meet stakeholder expectations about which transactions appeared as part of funds with restrictions. Their feedback was that for stakeholders the substance of a transaction is more important that its form.

BC36.7 Technical Advisory Group (TAG) members also had concerns about whether the type of arrangements in Section 23 were a suitable basis to determine presentation. TAG members' concerns centred on obligations that don't create a present obligation, but nevertheless limit how an NPO can use the resources provided.

BC36.8 There were also questions about whether EGAs should be part of funds with restrictions as the rights and obligations arising from the arrangement are dealt with as part of assets and liabilities and do not create a fund balance. Given the substance of these arrangements, the Secretariat's view is that EGA's are expected to be part of the funds with restrictions in the balance sheet, and that disclosure can be used to provide transparency over EGA income and expense recognition. In addition, it is recognised that from time to time there may be a balance on an EGA because there has been insufficient resources to fund the required activities or excess resources, which can then be applied to other purposes (where permitted to do so in accordance with the terms of the grant). Transparency of the impact of these types of arrangements is useful to users of the financial statements.

BC36.9 TAG members discussed the moral and/or ethical requirements to use resources in a particular way. Some TAG members were concerned about the presentation of funds with or without restrictions being based on moral and/or ethical requirements. This is because NPOs have a moral and ethical requirement to use all of its resources for the NPO's missional objectives and practically it might be difficult to distinguish between different types of moral and/or ethical requirements. The Secretariat agreed with these concerns. TAG members subsequently agreed that the reasonable expectations of stakeholders would be a better way of distinguishing when resources should be separately identified and presented.

BC36.10 A principles-based approach was developed to address these concerns. It both considered what constitutes a fund, and whether the funds identified should be presented as part of funds with restrictions, or funds without restrictions.

BC36.11 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. TAG members were concerned whether NPOs could effectively opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. As a consequence, the principles have been reframed so that it is the legal or equivalent requirements and the reasonable expectations of stakeholders which are the key determinants of whether a separate fund exists or not.

BC36.12 TAG members agreed that where there is a legal or equivalent requirement over the use of resources in a fund that limits the purposes or activities for which these can be used, that it should be presented as part of funds with restrictions. This can include grants and donations where there is either a formal agreement or a private arrangement.

BC36.13 There was significant discussion about the treatment of resources received from public fundraising campaigns for a specific purpose, particularly online campaigns and the nature of the obligation that arises. TAG members all agreed that there would be an expectation of separate treatment where a public commitment has been made that resources are to be used for the purpose for which the campaign was launched. As a consequence, these should be included as part of funds with restrictions. The definition of eligible campaigns has been articulated so that it only applies where an externally communicated public commitment has been made and that commitment is made at or before the launch of the fundraising campaign.

BC36.14 For all funds identified, there is a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. The Secretariat acknowledge that an NPO might be unable to track assets and liabilities for each separate fund. There is a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. This requirement has been developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPO's. A specific matter for comment will be raised on this point.

BC36.15 The internal designation of reserves can typically be changed, subject to the approval of the governing body, and as such they do not create a permanent limitation on the use of resources by the NPO. INPAG allows for internally designated reserves to be identified as a fund but requires that such funds be presented as part of funds without restrictions.

BC36.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAG to identify those funds that should be presented as part of funds with restrictions or funds without restrictions. Each fund includes the income and expenses related to the fund and any assets and liabilities. As a consequence, it may have a brought forward and/or carried forward balance(s). The aggregated balances on these funds will be presented funds with restrictions or funds without restrictions in the accumulated funds (sometimes called reserves) of an NPO. INPAG therefore uses the term only in connection with the specific sections of INPAG that require a reserve to be created. For example, a revaluation reserve will exist where an NPO uses the revaluation model for measuring its assets and it has valuation gains and losses. Similarly, a pension reserve will exist where an NPO has a defined benefit pension scheme to record changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO.

Disclosures

BC36.17 The information needs of users is a critical consideration. Feedback is that it is important to understand the extent to which an NPO can use its funds for any of its missional purposes (free reserves) and the extent to which resources can only be used for a specified purpose.

BC36.18 As a consequence, disclosure requirements are proposed that show for each fund the income and expenses in the year as well as any brought forward and/or carried forward balances. These disclosures are intended to provide transparency about resources received and how they have been used. They will also show any shortfalls or excesses on a fund with restrictions and how such balances have been addressed together with an appropriate explanation. NPOs have consistently provided feedback on the importance of such information, particularly when shortfalls are funded from funds without restrictions.

BC36.19 These disclosures will be important for NPOs that receive resources in one financial reporting period and use them in another financial reporting period or periods. With these disclosures, NPOs will be able to demonstrate the impact of such transactions on their surplus or deficit for the financial reporting period.

BC36.20 The disclosure requirements also apply to internally designated funds. It can be useful for an NPO to show that it has set aside funds for a particular purpose and how it subsequently uses those funds. TAG members had mixed views about whether such funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds have been included within the scope of the proposed disclosure requirements.

Consequential amendments

BC36.21 A definition of funds with restrictions and funds without restrictions was provided in Section 2 *Concepts and pervasive principles* as part of ED1. With the development of the content in Section 36 the definition has been removed from Section 2. Fund accounting is confirmed as a concept in Section 2, with the detail now held in Section 36.

BC36.22 In ED1 the proposals required the separate presentation of funds with restrictions and funds without restrictions in the Statement of Income and Expenses and the Statement of Changes in Net Assets and the aggregates of funds with restrictions and funds without restrictions only in the Statement of Financial Position.

BC36.23 Taking account of feedback in the ED1 consultation process and considerations in the development of this Section, it is now proposed to remove the original requirement that funds with and without restrictions be presented on the face of the Statement of Income and Expenses. The note disclosures required by Section 36 will replace this requirement. The requirements for the Statement of Changes in Net Assets and the Statement of Financial position remain unchanged.

Section 37 – Supplementary information

Supplementary statements

BC37.1 Providers of grant funding to NPOs frequently require special purpose financial and other reports specific to the activities that they are funding. Feedback during stakeholder outreach throughout the course of the IFR4NPO project has highlighted that the lack of harmonisation of donor reporting formats results in a significant burden to NPOs. Funders and auditors have also highlighted that the frequent inability of these special-purpose financial reports to be reconciled or cross-referenced to entity level audited financial statements is also a significant assurance challenge.

BC37.2 In September 2022 it was proposed that the IFR4NPO project should develop a standard format for an optional Supplementary Statement that can meet the financial accountability needs of providers of grant funding. Its objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes, as well as meaningful to primary users.

BC37.3 A Supplementary Statement Working Group (SSWG), was set up to develop proposals. It comprised six members drawn from the Donor Reference Group, Practitioner Advisory Group, Technical Advisory Group (TAG) and a Country Champion.

BC37.4 The output of the SSWG has been taken by the INPAG Secretariat to produce INPAG Practice Guide 1 – Supplementary statements (Practice Guide). The Practice Guide provides guidance for NPOs who wish to prepare one or more Supplementary statements in relation to one or more sets of its activities. It presents financial information on income, expenses, inventory and capital costs for those activities that are based on the audited financial statements.

The relationship between Supplementary statements and Section 37 *Supplementary information*

BC37.5 Following discussion with stakeholders, the Secretariat determined that guidance for the creation of Supplementary statements should sit outside of INPAG as a practice guide. This view was reached because the numerous permutations of Supplementary statements that could be produced is inconsistent with the principles of general purpose financial reporting, which requires that information should be capable of being useful to all users and not just to a particular subset.

BC37.6 The Secretariat did, however, consider that a whole of NPO set of supplementary information could be valuable as part of INPAG. This would provide an audited base from which additional statements (outside of the general purpose financial reporting) could be produced as well as additional information for primary users.

BC37.7 TAG members noted that this could be a burden if all NPOs were required to produce this information, regardless of whether or not they were also preparing one or more Supplementary statements. The Secretariat agreed and amended the proposals such that the provision of such information would only be required for those NPOs that are preparing one or more Supplementary statements using the Practice Guide.

BC37.8 The relationship between the Practice Guide and the requirement to produce supplementary information in the financial statements and/or accompanying notes are covered in this new Section of INPAG, Section 37 *Supplementary Information*.

Disclosure of additional information

BC37.9 Section 37 requires an NPO that has prepared one or more Supplementary statements to disclose additional information where it is not already presented elsewhere in the financial statements. This is to enable the disclosure of all of the information that would allow a whole of NPO analysis using the Supplementary statement classifications to be prepared.

BC37.10 Mindful of reducing reporting burdens, the proposals that the Secretariat presented to the TAG did not mandate the presentation of a whole of NPO Supplementary statement where information is already presented elsewhere in the financial statements. A whole of NPO Supplementary statement using the prescribed format included in the Guide was instead proposed to be encouraged as it is likely to benefit users.

BC37.11 This approach was supported by TAG members. It was also recognised that taken with the proposed reporting requirements of Section 24 Part II *Classification of expenses*, for those NPOs that produce Supplementary statements over time there should be a convergence of information requirements. NPOs would therefore be likely to find it beneficial to produce expense information in accordance with the prescribed format included in the Practice Guide.

Section 38 – Transition to INPAG

Scope

BC38.1 The IFR4NPO Consultation Paper proposed that only prioritised topics would be fully reviewed for the first issue of INPAG. Accounting for the transition to INPAG was not included as a prioritised topic. However, the development of INPAG and its proposals mean that there are additional considerations for an NPO adopting INPAG for the first time, and so this Section has been further developed.

BC38.2 Section 35 of the *IFRS for SMEs* Accounting Standard is based on an entity moving from another framework such as full IFRS, national GAAP or local income tax basis and also provides for those entities that did not previously present financial statements. This Section requires that at the date of transition all entities need to create opening balances to recognise all assets and liabilities. INPAG defines new assets and liabilities, which will also need to be included.

BC38.3 Technical Advisory Group (TAG) members were asked to consider whether the pragmatic exceptions and approaches in Section 35 of the *IFRS for SMEs* Accounting Standard were also appropriate for NPOs or whether they needed to be amended. The issues considered included presentation of comparatives, the measurement of assets and liabilities on initial recognition, the amount of time permitted to adopt all of the INPAG requirements and the potential to exclude narrative reporting from the statement of compliance for a transitional two year period.

Statements of compliance

BC38.4 INPAG is broader than the *IFRS for SMEs* Accounting Standard as it requires a narrative report in addition to the financial statements. In Exposure Draft 1, which sought feedback on the proposals for narrative reporting, there was a specific matter for comment about the amount of time needed to adopt these requirements and whether a transition period was needed. The need for such a transition period was raised as for some NPOs there would be a significant challenge in adopting the requirements for financial statements, and concerns that the requirements for narrative reporting could be a barrier to adoption.

BC38.5 Respondents to ED1 provided a range of views on a transition period. Some felt the scope of the minimum requirement could be easily achieved and that no transition period was necessary. Others felt that it should be a little longer but no more than 5 years. Reflecting on this feedback the Secretariat proposed a two-step approach where an NPO could express compliance with the requirements for the financial statements as an initial step. The second step would be compliance with the full INPAG requirements once narrative reporting requirements have also been met. The Secretariat raised concerns that without setting time limits for achieving full INPAG compliance, less than full compliance could occur in perpetuity. TAG members agreed that NPOs should not be able to avoid full compliance indefinitely. A two year period for all requirements to be met was agreed. TAG members also agreed that after the two year transition period, if an NPO has failed to meet the full requirements for general purpose financial reports, it would be unable to express compliance with any aspect of INPAG.

BC38.6 TAG members were also of the view that it may be useful for an NPO to explain which parts of INPAG it has adopted and its plans for achieving full compliance with INPAG, where it is not fully compliant. This statement could explain which aspects of INPAG an NPO plans to adopt and the associated timeframe. The scope for such a statement has been included in the guidance.

Comparative information

BC38.7 Section 35 of the *IFRS for SMEs* Accounting Standard requires comparative information before being able to state compliance with the Standard. Consideration was given to whether comparative information would be needed on the first time adoption of INPAG. For those NPOs that have not previously prepared financial statements, there would be no loss of information in allowing comparatives not to be required. A pragmatic exception in these circumstances would not diminish the information available and reduce barriers to adoption. For those entities that already produce financial statements using an international or national GAAP comparatives would be available and such an exception should not apply.

BC38.8 TAG members were all of the view that comparative information was necessary. They recognised that brought forward amounts would be needed to reflect funds with restrictions and funds without restrictions. Comparative information would be needed to enable the opening balances to be determined. TAG members were therefore of the view that in practice this information could be available if planned as part of implementation arrangements.

Measurement and recognition of assets and liabilities

BC38.9 Section 35 of the *IFRS for SMEs* Accounting Standard provides for deemed costs to be used where assets and liabilities were not previously recognised. For clarity, guidance on assets that are more common to NPOs has been added to INPAG to confirm that a deemed cost may be used.

BC38.10 INPAG has introduced enforceable grant arrangements (EGAs) that may have assets and/or liabilities associated with them on first time adoption and also other funding arrangements (OFAs) where there are considerations about what should be included as part of funds with restriction or funds without restrictions. Consideration was given as to how these should be recognised on first time adoption. Given the need to split accumulated funds between funds with restrictions and funds without restriction, it was acknowledged that a prospective approach would not be possible and there would be a need for retrospective application of INPAG to at least some transactions. To reduce the implementation work required, TAG members supported a proposal that agreements that have been completed or are due to complete within 12 months of the date of transition need not be included.

BC38.11 Minor changes have been proposed to align with other sections including the removal of references to share-based payments and in respect of terminology.

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