



IFR4NPO Project

Advice and Requests

Technical Advisory Group meeting

26 September 2024

TAGFG03 – Day 1



Session outline

- NPOs (draft) – Agenda item 7*
- Concepts and pervasive principles (draft) – Agenda item 2
- Revenue (way forward) – Agenda item 3
- Inventory (draft) – Agenda item 4
- Foreign exchange transactions (way forward) – Agenda item 5

*Note that Agenda item 7 and agenda item 1 were swapped with agenda item 1 (Structure of INPAG) moved to day 2

TAGFG03 Day 1 – 26 September 2024

Attendees

Ian Carruthers (Chair)
Jenny Carter
Bernhard Schatz
Tamba Momoh
Iheanyi Anyahara
Catherine Asmeite
Bee Leng Tan
Mohammad Anwarul Karim (Item 2 (part) and
Item 7 only)
Fridrich Housa (From Item 2 (part))
Daniel Sarmiento Pavas
Bill Biese
Jeff Mechanick
Katherine Knowlton

Observers

Jeff Gabello
Michelle Sansom
Samantha Musoke

Apologies

Jianqiao Lu
Tim Boyes-Watson

Staff

Karen Sanderson
Nandita Hume
Sarah Sheen
Paul Mason

Item 1 – NPOs

1.1 Advice

- a) The focus appears to be on providing benefits to people. Some NPOs exist to benefit the environment and animals. The scope should be broadened.
- b) Agree with the idea of incidental benefits in G1.10. Useful to clarify whether incidental benefits should be considered in relation to net assets, incoming resources or both. It would be helpful to broaden the guidance to explain the intention noting that expenses can be a proxy for effort. This would broaden the range of indicators.
- c) Amend the wording in G1.1 to focus on entities that do not operate with a primary objective of generating profits. It should be clear in G1.1 that entities operate for economic benefit, that surpluses can be made, but that these surpluses are not intended for distribution.
- d) The second sentence relating to public sector entities should be relocated, so that the third sentence about characteristics flows on from the first.

Item 1 – NPOs

1.1 Advice

- e) Complexities in identifying as an NPO can arise when organisations operate partly for profit. Noted also that in some organisations profit is incidental to its primary purpose.
- f) The draft Section 1 text does not distinguish between surplus and profit, with surpluses a positive for an NPO's ongoing operations. Contrasting surplus generated on an activity with profit for distribution may help to avoid confusion.
- g) There may be some entities that might not be considered NPOs for whom INPAG would be useful, for example mutuals who share profits among their members.
- h) The types of organisations that are NPOs may be determined by local regulation. It is important to reference this decision-making role. It is equally important that the guidance is clear about for whom it has been developed.

Item 1 – NPOs

1.1 Advice

- i) Flexibility is needed for membership organisations where experience is that there is a lot of debate. It would be helpful to not absolutely scope them out to allow for individual judgements to be made. Language around the need for there to be a significant public benefit over and above the benefit to members may also be helpful.
- j) Some concepts from the *IFRS for SMEs* Accounting Standard may be useful, particularly primary benefit, economic benefit and whether there are variable returns being made.
- k) Consider the inclusion of an example where town inhabitants are all members of a cooperative.
- l) In determining whether an entity is part of the public sector, it is not the level of government funding that matters but the level of control. The emphasis of the guidance should be on control of an entity rather than its funding in considering its classification.
- m) Consolidation of other entities is required by INPAG where an NPO controls another entity irrespective of which accounting framework the controlled entity is using.

Item 1 – NPOs

1.1 Advice

- n) Which types of entities are required to use public sector accounting frameworks can be determined by the legal framework in a jurisdiction.
- o) While it is not the intention that INPAG is for use for public sector entities it should be for each jurisdiction to decide. An example might be helpful. Softening the language away from bright lines about who could use INPAG would be useful.
- p) Implementation Guidance should not introduce new principles. Include the indicators in the core guidance as they appear to be new ideas. Implementation Guidance can be used where it elaborates on existing points.
- q) The new example is helpful but remove content that is not used in the analysis.
- r) It would be useful to explain in the examples that sometimes an assessment is straight-forward and that using the additional indicators is not always necessary and other times they should be used.

Item 1 - NPOs

1.2 Requests

- a) Review paragraph G1.1 so that it is better nuanced around intent and circulate for comment. Review the equivalent paragraph in the *IFRS for SMEs* Accounting Standard. Circulate ahead of the next TAG meeting.
- b) Control by the public sector should not be a bright line and the guidance needs to be nuanced and repositioned in the text.
- c) Concepts need to be in the authoritative guidance, with elaboration in the Implementation Guidance.

Item 2 – Concepts and pervasive principles



2.1 Advice

- a) Agree with the categories. Recommend that the second sentence is moved lower down the text to ensure that the categories have predominance.
- b) Change the word 'depend' when describing service recipients to 'use' or 'benefits from' to remove adverse power dynamics. The word 'use' is preferred.
- c) Users that have the rights to request other information can also be primary users and should not be excluded from being primary users just on this basis. Users that have the rights to special purpose financial information would also be expected to use general purpose financial reports.
- d) Agree with the proposals for those fulfilling oversight functions but the phrasing is too long. The role of the public needs to be made clearer.
- e) The user group of those fulfilling oversight functions may be too broad when linked with the purpose of the financial statements in terms of accountability and decision-making. The focus of this user group could be narrowed to stewardship and decision making over an NPO's use of resources.

Item 2 – Concepts and pervasive principles



2.1 Advice

- f) The role of the user group of those fulfilling oversight function is often advocacy on behalf of those that have less power. Advocacy is part of accountability. The word 'representative' may be too strong in describing their role. Could use 'acting in the interests of'.
- g) Is it appropriate to say that the approach taken to those fulfilling oversight functions is similar to IPSAS. The supervisory powers are likely to be different being incidental in the private sector rather than continuous in the public sector.
- h) The amendments made to the location of application guidance is supported. However, check that narrative reporting is fully flowed into the text as there are inconsistent references to general purpose financial statements and general purpose financial reports, particularly paragraph G2.14. Narrative reporting needs to be introduced earlier into paragraphs IG2.2 and IG2.3.
- i) Review the language 'under review' in relation to undue cost and effort to say, 'there is a requirement to review at the end of each reporting period'. Where there is a change arising from information reviewed, clarity is needed on what happens to comparative information. This is currently being reviewed by the IASB.

Item 2 – Concepts and pervasive principles



2.1 Advice

- j) Consider the typology between factors and indicators and which are part of authoritative guidance, and which are for Implementation Guidance.
- k) Consider the location of additional guidance on branches and whether it should be in the authoritative guidance.
- l) The definition of the reporting entity needs to be reviewed as the term 'include' doesn't quite work.
- m) Consider whether additional guidance is needed on materiality. The education materials being developed by the IASB on this topic may be useful.
- n) The guidance in IG2.3 about the purpose of financial reports should be part of the authoritative guidance. There are also some drafting points to be addressed.
- o) Review the references in the Basis for Conclusions to service potential BC 2.45 to BC2.48. The link to IPSAS 47 may not be appropriate at this point.

Item 2 – Concepts and pervasive principles



2.2 Requests

- a) Recast G2.10 to allow those that can request special purpose financial information to also be primary users.
- b) Re-look at the proposed text to ensure consistent use of general purpose financial statements and generally purpose financial reports and introduce earlier into the drafting of the narrative reporting requirements as an important feature of general purpose financial reports
- c) Review and update the location of the additional guidance on branches and resolve the terminology of what needs to be considered in reaching a judgement. Consider whether indicators might instead be factors.
- d) Ensure that there is appropriate signposting in the core guidance to additional guidance about the users of general purpose financial reports.
- e) Work with individual TAG members on updates to the drafting.



Item 3 – Revenue

3.1 Advice

- a) Agree that grant arrangements may have components, but the focus of the accounting should be on the obligations rather than components. Using obligation would bring the accounting closer to Section 23 Part II.
- b) Flow charts need to include where there are no obligations to be clear on the accounting for these transactions as the current drafting is not clear.
- c) Support the focus on the obligation. This leads to a question about whether a separate Part of Section 23 is needed for revenue from grants and donations. The argument was clearer when we were talking about enforceable grant arrangements. If the model is not different to exchange transactions the sections could be combined, but a separate section should be retained if this is helpful. It should be noted that in the application of AASB 15 in Australia NPOs are struggling with when a requirement is 'sufficiently specific'.
- d) It would be useful to have some framing text to explain the different types of obligation to cover differences between performance obligations and promises in IFRS and compliance obligations in IPSAS. This might help to simplify the content.



Item 3 – Revenue

3.1 Advice

- e) It should be noted that enforceability is at agreement level, but the obligation is at component level. An obligation is enforceable within an agreement. We appear to have conflated enforceability with the obligation, which makes the application of the principles confusing. Enforceability and obligations should be separated, and the components should be considered at step 2 in the model. In doing this, conditions could be introduced to 5 step model.
- f) 'Other funding arrangements' or 'other funding obligations' may not be clear to users of the financial statements. Useful to have meaningful descriptions in the illustrative financial statements. Useful to have guidance to say that INPAG users should use the most appropriate descriptions rather than those that have been illustrated.
- g) The top line in a flow chart should be a question about whether an agreement has one or more enforceable obligations. It should cover the implications if an obligation has restrictions or no restrictions.
- h) There is a lot of guidance about 'enforceable grant arrangements'. Does this need to change to focus on obligations. The guidance on enforceable grant arrangements should still sit in his section. There is a difference to IFRS with the focus is at contract level if an obligation approach is taken.

Item 3 – Revenue

3.1 Advice

- i) NPOs use different terminology to for-profit organisations. Terminology needs to be considered given the introduction of ‘promise’ into the *IFRS for SMEs* Accounting Standard instead of “performance obligation” in IFRS 15 to ensure that the guidance is clear. The term ‘enforceable’ needs to be clear including how it is meant to apply. There needs to be discussion of agreements that are unenforceable. The use of the term ‘promise’ may aid the discussion on enforceability when considering what terminology is used.
- j) FASB has a flow chart issued in 2018 that documents the decision points starting with the question about whether the transaction is an exchange transaction or not.
- k) The use of the term ‘promise’ introduced in the *IFRS for SMEs* Accounting Standard may muddy the waters. This may confuse the terminology used, which needs thinking through. Use of the adapted terms in IFRS fits better with NPOs. Need to avoid confusion with the use of IFRS or the *IFRS for SMEs* Accounting Standard.
- l) The two parts of Section 23 should be maintained, with the terminology choices explained in the Basis for Conclusions.

Item 3 – Revenue

3.1 Advice

- m) The guidance in G24.20 refers to specified activities and outcomes. This should be lifted into the core guidance [relates to paper 8].
- n) Illustrate through examples that different components may have different performance obligations or there may be multiple obligations relating to a single component. Clarity is needed on what is required where there are multiple obligations related to a single pot of money and this cannot be accessed until all the obligations are satisfied.
- o) Not clear how you would apply value to the recipient and whether this could be assessed but makes sense if linked to an output. This needs to be clarified. Also, whether a mix of allocation bases can be used where there are multiple obligations in an arrangement related to a single pot of money.
- p) A rebuttable presumption to use cost as the basis of allocation would simplify requirements for the organisation. However, providing the information to support the judgement about a basis to use should not be difficult and provides important information. On balance a rebuttable presumption may not be useful. Important to use an approach that provides the most faithful representation.

Item 3 – Revenue



3.1 Advice

- q) It is not clear why revenue needs to be recognised for donations provided for onward distribution when the receipt and distribution are in the same reporting period. It may not be helpful to require NPOs to do this, particularly if it is difficult to track items donated. It may be more appropriate to disclose rather than recognise.
- r) In the UK items for distribution are only not recognised when it is impracticable. If these items are not recognised the size of the activity of an NPO may appear to be smaller than it actually is.
- s) Not convinced about the mission critical criteria as it brings in volunteer time that may not be possible to reliably measured and it may leave out services in-kind that could potentially be measured. It is possible that respondents didn't appreciate the implications of the proposal for recognising mission critical services in-kind.
- t) Setting the bar at mission critical is ok for recognition. It would be useful to explain in the Basis for Conclusions that the bar for recognition has been set quite high and why. Include examples to illustrate what is mission critical and what is not.
- u) Recognising services in-kind will help demonstrate the size of the sector but may lead to questions about what should be included.

Item 3 – Revenue



3.1 Advice

- v) The use of judgement on what is considered mission critical may lead to lack of comparability. It is important to have disclosure to mitigate against lack of comparability. We need to strongly encourage disclosures and have metrics or information about the types of services in-kind in the notes or narrative to help in the short-term.
- w) Guidance would be helpful to make clear the level of effort expected in valuing volunteer services to ensure that NPOs do not go beyond what is required.
- x) NPOs may receive items that are over-specified against their requirement and so not be able to access the full value of a donated item. This needs to be considered in the ED3 feedback on fair value.
- y) The example on a patent is supported. It is useful to exemplify the difference between compliance reports (eg a finance report) and a report such as published research. Both are reports but one is administrative and the other not. It is useful to provide illustrative examples that book end the possibilities to help NPOs to make judgements. It is also useful to illustrate that those obligations that rely on internal services to deliver them versus administrative tasks.

Item 3 – Revenue



3.1 Advice

- z) There should be a requirement for a qualitative disclosure of anything not recognised – it should be at an appropriate level. Steer away from best estimate valuations in disclosing a value. Clarify if it is a requirement to disclose separately in-kind services from cash revenue. Consider what belongs in disclosures and what should be included in the narrative report.
- aa) Agree that it is useful to have some kind indication about in-kind services and what they are. Fair valuing services in-kind may be problematic if records are not kept. There needs to be a cost/benefit consideration to their measurement.
- bb) What are the implications if we rely on narrative reporting for information on services in-kind and narrative reports are not published in the first 2 years. What belongs in disclosure and what belongs in narrative is therefore an important discussion.
- cc) Requiring fair value measurement can be difficult and expensive. Could the cost of acquiring services be used even if not strictly fair value where an activity is critical.
- dd) We should be more prescriptive (linked to materiality) about what information to provide if a fair value cannot be determined to avoid differences in approach.

Item 3 – Revenue

3.1 Advice

- ee) Encouraging disclosure is not sufficient. Something should be disclosed (nature and scope of an activity) where a transaction is not recognised. This should not be optional. Any additional information, for example, metrics would be an enhancement.
- ff) Encouraging disclosure without requiring it is sufficient if there is lack of data. We could require that materiality of the activity 'shall be considered' in determining the disclosures to be made.
- gg) If mission critical is suitably defined it takes the heat away from the disclosure of services in-kind.
- hh) Some minimal reporting on nature and scope of services in-kind should be in the disclosures. Information beyond this can be in the notes or in the narrative.
- ii) Whether a time restriction creates an obligation is important. Stakeholders want to be able to recognise revenue in the same period as the time obligation of the activity. Canadian standard setters are considering if an exception is needed.

Item 3 – Revenue

3.1 Advice

- jj) An exception for this type of time restrictions risks introducing a rule. We need to educate users that NPOs may have differences between the recognition of income and expenses and help manage perceptions.
- kk) Agree that the treatment of time restrictions needs to be determined by the facts. Time restrictions need to be addressed from a grant giving and grant receiving perspective. Examples would be helpful.
- ll) A time restriction tests how an enforceable grant obligation works within the Section as it requires the obligations in the arrangement to be identified and assessed.
- mm) Noise around time restrictions can be dealt with by considering what appears in the presentation of items with or without restrictions. However, placing such grants in funds with restrictions might not be the answer in some situations.

Item 3 - Revenues

3.2 Requests

- a) Develop a flow chart that addresses the different types of obligation and the extent to which they are restricted, starting with the grant agreement. Focus on obligations (enforceable grant obligations) rather than components.
- b) Explain in the Basis for Conclusions why a rebuttable presumption for a revenue allocation basis has not been included. Include additional examples on allocation in the Implementation Guidance.
- c) Capture in the Basis for Conclusions the discussion on the use of a broader or narrower scope of donations held for distribution and explain that on balance the response from constituents on permitted exceptions was supported.
- d) Explain in the Basis for Conclusions the approach to the use of 'mission critical' for services in kind. Include examples that show the two extremes of what types of volunteer time might be recognised.

Item 3 - Revenues

3.2 Requests

- e) Reframe the guidance to go beyond encouragement in relation to the disclosure of services in-kind that are not recognised. Be clear that if an NPO cannot measure a transaction it still needs to be described. The Implementation Guidance should include the types of information to consider in determining the disclosures to be made. Explain in the Basis for Conclusions why disclosures are 'strongly encouraged' rather than required.
- f) Make an explicit link between disclosures and service in-kind information in the narrative report, considering potential overlap between disclosures and narrative reporting.
- g) Explain the decision on the use of adapted terminology from full IFRS in INPAG in relation to present obligations.
- h) The treatment of timing restrictions needs to be explained in the Basis for Conclusions. Implementation examples are to be developed.

Item 4 – Inventories



4.1 Advice

- a) Need to be careful about any wording in the Basis for Conclusions about regulators being in the best position to identify what might be low-value. Avoid the risk that a practice inspector [auditor] could disagree and say the value is wrong.
- b) One suggestion is that the low-value amount is a maximum that can be reduced by local regulators.
- c) A number or range of numbers may be a problem if it not subject to inflation.
- d) The value of an item may not be material, which is important given the exception only delays recognition rather than providing a relief. The exception might not therefore provide the relief intended.
- e) Concern about using a specific figure as low-value. Prefer to keep low-value principles based linked to materiality and leave values as a matter for each jurisdiction. Use of a threshold introduces a rule, which is a concern. Address materiality in the Implementation Guidance, including reference to what is clearly trivial.

Item 4 – Inventories

4.1 Advice

- f) A range of what is meant by low-value linked to high or low income countries could be difficult to apply. Keep to the use of principles and provide examples. Benchmarking to a globally available item or other linked benchmark is an alternative approach.
- g) Inventory can be sensitive because it is vulnerable to being misappropriated. It is dangerous to make exceptions when the item can be measured. A threshold increases the danger as a threshold becomes a rule.
- h) If the goal is to find a number that is immaterial even if there are many items in aggregate, it could be challenging compared to leases, as these are more finite. Not comfortable with using a specific value without more research. Not sure that we should be looking at a single specific number in any case.
- i) Don't support a single number. Leave it based on materiality and support through guidance.

Item 4 – Inventories

4.1 Advice

- j) There is demand to understand what is meant by low-value so that practitioners understand how to apply INPAG.
- k) Use implementation examples to illustrate the thresholds being used are associated with different fact patterns. Set out the thought process in reaching a judgement about what is low-value linked to materiality and the factors to consider as examples might not be enough.
- l) Is the explanation of why an NPO isn't able to reliably measure an item going to result in useful disclosure. It would be useful to include an illustrative example of when an inventory item is not recognised due to the inability to reliably measure it. Is G13.36 clear in term of what is required.
- m) The application guidance should be separated out of the core text. This is helpful in signalling that the Section has not been fully reviewed.

Item 4 - Inventories

4.2 Requests

- a) Discuss the factors to be considered in setting an organisational low-value threshold in the Implementation Guidance (including reference to the guidance in Mexico and Practice Statement 2). Make clear that NPOs will need to discuss the judgement on 'low-value' with their auditors to reach an agreed position.
- b) Separate the application guidance from the core text as this Section has not been fully reviewed.

Item 5 – Foreign currency translation



5.1 Advice

- a) The functional currency shouldn't be determined by the source of grant income. The Implementation Guidance could assist users in applying factors. Consider if factors could be ranked. Guidance could include disregarding grant revenue as a source if this is subject to significant variability.
- b) Grant liabilities are similar to contract liabilities. There is also a link to variable consideration. If these liabilities are in a foreign currency they should be remeasured. If contract liabilities are remeasured not sure why grant liabilities wouldn't be.
- c) The best place to look for guidance on monetary and non-monetary items is the Basis for Conclusion in IFRIC 22.
- d) Not convinced that a movement in an exchange rate results in an onerous contract, particularly if exchange rates can go the other way or the activity could be delivered in another way. It is not onerous until it can't be avoided.
- e) Look at whether refunds are considered elsewhere in INPAG. If there is no further guidance it would be helpful to cover this in the Implementation Guidance.

Item 5 – Foreign currency translation

5.2 Requests

- a) Add additional guidance regarding the factors to consider in determining the functional currency.
- b) Further consider IFRIC 22 and the definition of monetary and non-monetary items.
- c) Add further guidance to the Implementation Guidance and/or create an illustrative example to explain when an exchange rate movement could result in an onerous contract. Do not hardwire requirements into the core text.
- d) Check with the IASB the treatment of refunds and whether it is considered variable consideration. Consider additional implementation guidance.
- e) Test the proposed illustrative examples with external users.



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