



# IFR4NPO Project

## Advice and Requests

Technical Advisory Group meeting

27 September 2024

TAGFG03 – Day 2



# Session outline



INTERNATIONAL FINANCIAL REPORTING  
FOR NON PROFIT ORGANISATIONS

- TAG Terms of Reference – Agenda item 6
- Structure of INPAG (draft) – Agenda item 2
- Grant expenses (draft) – Agenda item 8
- Minor topics (draft) – Agenda item 9, 10, 11 and 12
- Consolidated and separate financial statements – Agenda item 13

Note that Item 7 and Item 1 were swapped with Item 7 (NPOs) moved to day 1

# TAGFG03 Day 2 – 27 September 2024

## **Attendees**

Ian Carruthers (Chair)  
Jenny Carter  
Bernhard Schatz  
Iheanyi Anhawara  
Catherine Asmeite (Items 1, 6 and 8)  
Mohammad Anwarul Karim (From item 8)  
Fridrich Housa  
Daniel Sarmiento Pavas  
Bill Biese  
Jeff Mechanick  
Katherine Knowlton  
Tamba Momoh

## **Apologies**

Jianqiao Lu  
Tim Boyes-Watson  
Bee Leng Tan

## **Observers**

Jeff Gabello  
Michelle Sansom  
Samantha Musoke  
Carolyn Cordery  
Michelle Lombaard

## **Staff**

Karen Sanderson  
Nandita Hume  
Sarah Sheen  
Paul Mason

# Item 1 – TAG terms of reference

## 1.1 Advice

- a) Thought should be given about the approach to those members who will be approaching the limit of 10 years membership and whether there will be a roll off of members before the term limit is reached to avoid a large number of members all leaving at the same time.
- b) It isn't clear whether dissenting views will be published as individual dissenting views or wrapped up into the Basis for Conclusions as a balance of opinion. If the vote is non-binding it seems out of step to have a separated dissenting view from an individual.
- c) 60% agreement from attending members when required to vote is not enough. Propose that this is increased to two thirds.

# Item 1 – TAG terms of reference

## 1.2 Requests

- a) Make clear that dissenting views will be included 'as part of' the Basis for Conclusions rather than 'in' the Basis for Conclusions.
- b) Increase to two thirds the number of members that are required to support a proposal when voting.

# Item 2 – Structure of INPAG



## 2.1 Advice

- a) The revised draft is an improvement, and the approach to the location of the application guidance reduces duplication and risk of inconsistencies. The location of guidance in INPAG needs to be communicated, potentially the preface.
- b) Support the proposals in Appendix B to the TAG paper. Agree with the categories and the proposed renumbering. Include a table that links to the *IFRS for SMEs Accounting Standard* and explains the degree of modification.
- c) Suggest that the renumbering allows for the future inclusion of new sections. If there were gaps in the numbering this could allow for sections to be slotted into INPAG in the future.
- d) Prefer to keep the numbering consistent with the *IFRS for SMEs Accounting Standard*. The label for the expense related category in Appendix B to the TAG paper maybe confusing as it includes topics that are related to liabilities.
- e) Agree with the proposals in Appendix B to the TAG paper and it is a good approach to renumber. A mapping table may not be necessary or important.

# Item 2 – Structure of INPAG



## 2.1 Advice

- f) Renumbering the sections is preferred, together with a comparison table.
- g) Consider the categories in Appendix B to the TAG paper as separate INPAG sections that allow for numbering to be extended, with the basis being category A then category B with each having a number of topics. The order of the categories needs to be settled. Some standard setters put more general topics first with the more specific topics later.
- h) Review the wording that expresses how the *IFRS for SMEs* Accounting Standard has been used in developing INPAG, particularly to explain what is meant by 'review'. Consider this in the context of the terms used elsewhere such as adapted, modified etc.
- i) Can applying the *IFRS for SMEs* Accounting Standard by analogy be the first reference point where INPAG does not address a transaction rather than directing to other standards.
- j) When looking at how other standard setting bodies use complementary guidance, INPAG Practice Guide 1 could be part of INPAG. There are pros and cons to including the Practice Guide in INPAG.

# Item 2 – Structure of INPAG

## 2.2 Requests

- a) Renumber INPAG using the structure proposed in Appendix B to the TAG paper. Consider how to provide space for additional sections and the statement of concordance.
- b) Review the ordering of the paragraphs, rather than change the text in the Preface.
- c) Consider what is needed in the Preface to explain the approach to the structure of INPAG and to assist in the navigation of INPAG materials.



# Item 3 – Grant expenses



## 3.1 Advice

- a) Agree that there is consistency between the model used for grant revenue and grant expenses recognition noting that there is a higher hurdle to recognise expenses. This should be considered before finalising the model.
- b) Where a resource has been provided in advance the grantor has a right, if a grantor has not provided resources, there is a question about how this situation is described. Consider how often it is expected that a grantor has an asset.
- c) Review the use of grant-providing NPO versus NPO throughout the text for consistency. Review the clarity of the reporting entity when referring to the grant provider and grant recipient.
- d) Review the approach used in IPSAS with regard to transfer rights and transfer right assets.
- e) Suggest moving to the term grantor rather than grant-providing NPO to signal that this is about grant expenses.

# Item 3 – Grant expenses

## 3.1 Advice

- f) Can INPAG be clearer that an appropriate term relevant to an NPO's financial statements can be used instead of the terminology used in INPAG as long as the term used is not misleading.
- g) There is an advantage to terms like 'component' that is agnostic as to whether you are the grantor or grantee as it allows a description of the grant agreement.
- h) Practice is developing and evolving in the public sector around the use of the IPSAS on transfer expenses. Use this learning to look at learning from terms such as regulatory oversight.
- i) Look at the use of 'law and legal frameworks' as a broader concept rather than use of regulatory factors.
- j) The word 'assists' in the definition of a grant expense should be changed to 'agree' or 'partners' to better reflect the relationship and address power dynamics. Alternatively, assists could be removed from the definition.

# Item 3 – Grant expenses



## 3.1 Advice

- k) It should be noted that 'component' is used differently in IFRS and IPSAS and has a different meaning in each. Also note differences in INPAG around the use of 'agreement' and 'arrangement' in relation to grants and donations.
- l) The new example is useful, but make clear that the subsequent asset referred to in the example is a receivable not a prepayment.
- m) Consider in the example the interaction with impairment and whether an asset is impaired rather than there being a contingent asset. This part of the example could be removed. Evolving practice would shed light on the frequency of these events. If an example for a contingent asset is included, INPAG could refer to a dispute going to mediation.
- n) When referring to grant rights, prefer that extinguished is explained in INPAG and then used throughout the section (approach 1). Extinguished is used in the *IFRS for SMEs* Accounting Standard.
- o) Review the wording on derecognition in INPAG Section 2 to see if it is helpful in explaining the fulfilment of rights.

# Item 3 – Grant expenses

## 3.2 Requests

- a) Reflect on the terminology to ensure it is as simple as possible. Ask the grants focus group to consider the labelling of a grantors' rights.
- b) Update grant expenses section once the model revenue has been settled for further review by the TAG.
- c) Use the term 'extinguished' with respect to grant fulfilment rights and explain this term.

# Item 4 – Minor topics - Share based payments and employee benefits

## 4.1 Advice

- a) Agree that share based payments is removed as a section from INPAG based on the arguments put forward and rely on the Preface. Explain the removal in the Basis for Conclusions.
- b) A simplified section is not needed as the guidance on using other materials where a transaction is not covered by INPAG is in the Preface. It is also covered in other sections. Including a simplified section may create an expectation that every time we don't have clear guidance we have to point specifically to the *IFRS for SMEs* Accounting Standard rather than relying on the material in the Preface.
- c) The simplified section is ok but if it is retained the drafting needs to cross refer to Section 10 and be redrafted so that it is kept to direction rather than explanation. The explanation is for the Basis for Conclusions.
- d) Section 26 should removed with INPAG users accessing the accounting policy hierarchy to address any such transactions

# Item 4 – Minor topics - Share based payments and employee benefits

## 4.1 Advice

- e) Be silent on shared based payments in Section 28 on Employee benefits and explain the approach in the Basis for Conclusions.
- f) As previously raised, Other Comprehensive Income (OCI) should not be removed from the Income Statement. If it was retained this issue would not arise.
- g) Log OCI as an issue for future consideration with regards to transparency.
- h) Note that the requirements for defined pension schemes in the *IFRS for SMEs Accounting Standard* are not the same as in *IAS 19 Employee Benefits*. Alignment has not been made because of discussions about the use of OCI. In logging for a future work programme, care needs to be taken to ensure that two different formats for presentation are not mixed with measurement. It could be a bigger issue.

# Item 4 – Minor topics - Shared based payments and employee benefits

## 4.2 Requests

- a) Remove Section 26 in its entirety from INPAG and explain the rationale in the Basis for Conclusions.
- b) Amend Section 28 to reflect the removal of Section 26.
- c) The location of non-realised gains and losses and the role of OCI to be considered for INPAG Version 2.

# Item 4 – Minor topics - Financial instruments and Provisions and contingencies



## 4.3 Advice

- a) Part I and Part II of the financial instruments section in the *IFRS for SMEs Accounting Standard* were created to allow Section 12 to be used for Fair value measurement. Having two parts may be a bit clunky.
- b) Education materials on financial instruments will be issued alongside the publication of the Third edition of the *IFRS for SMEs Accounting Standard*.
- c) The Basis for Conclusions needs to explain that stakeholder feedback on the Expected Credit Loss model has been superceded by the IASB's decision to remove it from the *IFRS for SMEs Accounting Standard*. An aged receivable listing disclosure has been added as a requirement following the removal of the Expected Credit Loss model.
- d) Surprised that the majority seemed to support ECL's inclusion in INPAG. Agree with the decision and that the Expected Credit Loss model is removed from INPAG



# Item 4 – Minor topics - Financial instruments and Provisions and contingencies



## 4.3 Advice

- e) It would be useful to signal in the Basis for Conclusions that concessionary loans will be looked at in the future as it is a huge issue in the non-profit sector.
- f) ED2 flagged that changes to the final *IFRS for SMEs* Accounting Standard would be reflected in INPAG, which may have impacted responses and the change for the Expected Credit Loss model should not be a surprise.
- g) The Expected Credit Loss model has not been brought into UK GAAP. The UK FRC will look at it again and consider how the IASB has responded to this issue. UK GAAP does have financial institutions in its scope and will look at whether specific solutions are needed for these organisations.
- h) There are many institutions working on micro credit but not on a for-profit basis. Also, there are credit unions that operate as non-profits. Expected Credit Loss would be best applied in these cases.

# Item 4 – Minor topics - Financial instruments and Provisions and contingencies



## 4.3 Advice

- i) US GAAP has a different approach to the Expected Credit Loss model. There is a proposed simplification that could be applied to non-profits. There are examples of micro finance and loans to operating charities. Credit unions are not non-profits in the US. For INPAG, it would be difficult to argue something different to the *IFRS for SMEs* Accounting Standard as the section has not been fully reviewed.
- j) There are jurisdictional differences in the treatment of credit unions internationally. The *IFRS for SMEs* Accounting Standard should be followed because of the cross over of entities between sectors.
- k) A definition is needed of receivable and the special characteristics of loans, which may be different to commercial institutions. This should be clarified before guidance could be issued.
- l) In Section 3 it says that if the guidance does not lead to a faithful representation of the transactions then different accounting can be used. It could be noted in the Basis for Conclusions that if the Expected Credit Loss model provides better for NPOs that have significant credit risk information it can be used.

# Item 4 – Minor topics - Financial instruments and Provisions and contingencies



## 4.4 Requests

- a) Retain the Part I and Part II approach to financial instruments used in the *IFRS for SMEs* Accounting Standard.
- b) Update the Basis for Conclusions for Section 11 to reflect the removal of the Expected Credit Loss model.

## Item 4 – Minor topics - Borrowing costs and Income Tax

### 4.5 Advice

- a) The capitalisation of development costs and borrowing costs is raised at each review of the *IFRS for SMEs* Accounting Standard. A consistent approach is taken between the treatment of these types of costs.
- b) Agree that borrowing costs can be a significant issue, but there is no NPO-specific reason to move from the approach in the *IFRS for SMEs* Accounting Standard. There can be significant impacts for NPOs.
- c) Is there real value of deferred tax assets and liabilities for NPOs – does it have meaning? Deferred tax can create a real liability for NPOs. This is not an NPO-specific issue and gets raised in relation to other entities.
- d) It is useful to note that deferred tax is dependent on the local tax regime and may not be relevant to all NPOs.

## Item 4 – Minor topics - Borrowing costs and Income Tax

### 4.5 Advice

- e) Deferred tax may be more relevant than equity claims for NPOs and more education may be needed on these types of transactions.
- f) Smaller Canadian for-profit entities can use the tax payable base rather than talk about deferred taxes. This is on the basis that it is not useful information for the users of the financial statements.
- g) Deferred tax was removed from UK guidance for micro entities (only current tax) but not elsewhere.
- h) Agree to reinstate paragraph 29.3 relating to grants from the *IFRS for SMEs* Accounting Standard.

## Item 4 – Minor topics – Borrowing costs and Income Tax

### 4.6 Requests

- a) Log borrowing costs as a future INPAG topic.
- b) Acknowledge in the Basis for Conclusions that the use of Section 29 is dependent of the local tax regime (deferred tax), and so its use will be jurisdiction specific.
- c) Add paragraph 29.3 from the *IFRS for SMEs* Accounting Standard into INPAG.

# Item 4 – Minor topics – Hyperinflation and Events after the end of the reporting period



## 4.7 Advice

- a) The meaning of 'concluded' in relation to the proposed new text on grant agreements isn't clear.



# Item 4 – Minor topics – Hyperinflation and Events after the end of the reporting period

## 4.8 Requests

- a) Update the reference in Section 32 to potential post balance sheet events from 'grants concluded' to 'grants signed'.



# Item 5 – Consolidated and separate financial statements



## 5.1 Advice

- a) Keep the application guidance with the principles in the core text as it will make it easier for users to have the all the guidance in one place. It is not just augmenting as the application of control in an NPO context is significantly different. Preference is to be inconsistent in the location of the application as an important exception.
- b) Reinstating the application guidance as a separate section provides consistency. This reflects that currently the additional guidance is a fix pending a full review of the section.
- c) The hardest part of Section 9 is the application of the control principles, especially exposure to variable returns. There are transactions that are more prevalent in different sectors that are linked to control and makes the application of the principles different.
- d) It would be helpful to have a feedback form on the website where users of INPAG can provide views on the content of INPAG. The procedures for raising questions about the application of INPAG needs to be clear.

# Item 5 – Consolidated and separate financial statements



## 5.1 Advice

- e) Check the drafting and the placement on the language in the rebuttable presumption regarding the assessment of the level of control when there is ownership and whether there is an intention to only limit to ownership. Without extending beyond ownership the rebuttable presumption has little value to NPOs.
- f) Change “owns” to “holds” in paragraph G9.31 and make it clear that there is a further assessment required to take account of other factors.
- g) It is common to have non-profits in financial reporting groups. If there are significant other entities in a group separate financial statements can be prepared.
- h) Confirm the intent with the references to a reporting NPO when substituting parent. Is a specific reference to NPOs needed and could more generic language like controlling entity be used. It can help to understand who is applying the guidance and therefore which entity is being referred to.
- i) The definition of a “controlling entity” is confusing. A definition may not be needed if it is only used in one paragraph and it can be reworded and explained in application guidance.

# Item 5 – Consolidated and separate financial statements



## 5.2 Requests

- a) Remove application guidance from the core text and include this as separate application guidance.
- b) Ensure that there is a place on the website for feedback. Provide TAG with a paper on feedback mechanisms and the procedure for raising questions to create a channel for communication.
- c) Include consolidation and control as a future topic to be explored. Identify the information needed to support future development of this work.
- d) Update the rebuttable presumption once *IFRS for SMEs Accounting Standard* has been issued and look at the level of application guidance needed.

# 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