



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG01-01

14 May 2024 – Online

Narrative Reporting – Response to ED1

Summary	This paper provides TAG members with a summary of the responses to the specific matters for comment for narrative reporting that were included in INPAG Exposure Draft 1, respondents views on those issues and suggested approaches for the final guidance.
Purpose/Objective of the paper	The purpose of this paper is to provide a detailed analysis of the responses to the SMCs for ED1 on narrative reporting. It seeks the views of TAG on the Secretariat's initial suggestions and areas where TAG's advice is sought to further develop the final guidance based on the respondents' views.
Other supporting items	NA
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Actions for this meeting	Advise on: <ul style="list-style-type: none">i. the approach to sustainability reporting;ii. the approach to sensitive information;iii. the Secretariat's individual questions and suggestions on response feedback;iv. the approach to the guidance on other information;v. the approach to illustrative implementation guidance.

Technical Advisory Group

Narrative Reporting - Response to ED1

1. Introduction

- 1.1 This paper:
- Provides a summary and high-level analysis of the consultation responses to the Specific Matters for Comment (SMC) relating to narrative reporting included below and in Annexes A to C.
 - Sets out initial approaches and responses from the Secretariat.
 - Seeks TAG members' advice on a number of the issues raised by the consultation responses, particularly relating to sensitive reporting, sustainability reporting and the reporting of other information.

2. Background

- 2.1 The IFR4NPO Consultation Paper proposed that one of the core premises of INPAG, in order to meet Guidance objectives, would be the inclusion of non-financial reporting information also known as narrative reporting. This would lead to NPOs producing general purpose financial reports.
- 2.2 Analysis of the Consultation Paper responses supported a framework and principles-based approach that provides a mandatory core of narrative reporting requirements that could be applied by all NPOs. The approach proposed is adaptable, allowing NPOs to go beyond this core. The approach is designed to ensure a base level of consistency and comparability amongst all NPOs applying INPAG, while providing NPOs the freedom to move beyond this to meet the needs of users.
- 2.3 The Exposure Draft SMCs focussed on four areas:
- the principles to underpin narrative reporting
 - the scope of the minimum mandatory requirements
 - the permission for the non-disclosure of sensitive information, and
 - transition.
- 2.4 Although there are a number of areas where respondents both agreeing and disagreeing suggested changes or augmentations the response was overall extremely supportive of the approach in Exposure Draft 1 (ED1). A snapshot of the responses to the SMCs is provided at Annex A with more detailed analysis provided in Annexes B and C and in the body of this report.
- 2.5 In addition to the formal responses provided to the Exposure Draft, a survey conducted in February/March 2023 provides further information and insights to support the development of the way forward.

- 2.6 A focus group took place towards on 24 April 2024 which considered the non-reporting of sensitive information, the approach to sustainability reporting and the reporting of other information.
- 2.7 The PAG met on 2 May 2024 and further considered these issues. A verbal update will be provided on the key points made.
- 2.8 Early suggestions for changes to Section 35 and the implementation guidance are included in Annex D.

3. Narrative reporting principles

SMC 12(a) Do you agree with the principles proposed to underpin narrative reporting?

- 3.1 Ninety-six percent, (sixty respondents), agreed with the proposed principles to underpin narrative reporting with two percent, (one respondent), disagreeing and the remaining two percent, (one respondent), indicating that they neither agreed nor disagreed. Seven respondents provided no response to this SMC.
- 3.2 The respondents to the survey for ED1 showed high levels of support for each of the principles. Over 75 per cent (of 58 respondents) agreed that each principle was “very important”. See Annex A(ii) for further details.
- 3.3 The respondents to the SMCs who agreed with the principles indicated that:
- these principles will result in performance information and financial statement commentary that is useful to users of the NPO’s general purpose financial reports.
 - high-level principles for non-financial reporting should be used while international frameworks are being developed.
 - the principles proposed, which include what is already on the ground, are a great starting point that can be furthered during implementation.
- 3.4 There were numerous comments about the resource implications of the changes throughout the responses to the SMCs. The respondent that disagreed with the principles, was of the view that the requirements would be too resource intensive. Furthering the theme of the impact on resources, the respondent that neither agreed nor disagreed was of the view that these demands might call for separation of INPAG guidance on narrative reporting from the main guidance.
- 3.5 The inclusion of narrative reporting in INPAG is one of the fundamental principles to support transparency and accountability. In the original consultation there was very little support for the “do nothing” alternative. The Secretariat is of the view that the resource implications of the guidance might be mitigated by means of an appropriate transition period. Further views on this are being sought in ED3 in conjunction with Section 38 *Transition to INPAG*. The potential impacts are also addressed to an extent by the inclusion of a minimum requirements approach.

- 3.6 A number of the respondents that agreed also made suggestions for augmentation of the guidance. The Secretariat's proposed approach to the detailed comments is included in Annex B. TAG members' views are sought on the proposed responses.
- 3.7 A small number of respondents argued for some form of differential reporting either by allowing for efficiency within groups or other means. However, the Secretariat is of the view that this does not align with the overall approach in the proposals to provide minimum requirements which all NPOs can follow. It would also add to the complexity of the guidance in Section 35.

Question 1: Do TAG members agree that differential reporting should not be included in the narrative reporting requirements either within groups or other basis (eg size)?

4. Scope of Narrative Reporting

SMC 12(b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional. If not, what changes should be made and why?

- 4.1 Seventy-four percent, (forty-six) of those that responded to this SMC, supported the minimum mandatory reporting requirements in Exposure Draft 1. Twenty-one percent, (thirteen), disagreed with five percent, (three respondents), neither agreeing nor disagreeing. Seven respondents did not answer this question.
- 4.2 Positive comments from the respondents included that the approach to the minimum information specified:
- was useful, to ensure a base level of consistency and comparability and give NPOs an option to extend their narrative reports to cover additional areas.
 - afforded NPOs the opportunity to provide more useful information such as value for money.
 - is essential for stakeholders to understand the organisation's operations and financial position.
 - should lead to a proficient level of compliance.
- 4.3 There were, however, suggestions for improvement to the scope specifications in Section 35 from respondents that agreed, disagreed and those who neither agreed nor disagreed. These are summarised in Annex C. The responses included whether budgetary information should be included in performance measures, ensuring that there is a balance of information (where experience has been that this is difficult for NPOs) and the need for more guidance on reporting the performance of services. TAG members are invited to review the Secretariat's responses included in the Annex. To accord with the approach of minimum mandatory reporting requirements, the Secretariat is of the view that any specifications of the requirements for the reporting the performance of services should be presented, as examples, in the implementation guidance and with a brief reference to service performance in the

core guidance. The Secretariat would seek views on this approach to ensure that the reporting burden is kept to a minimum.

- 4.4 Those respondents that disagreed indicated that:
- sustainability reporting should be mandatory
 - the principles should require more information on those charged with governance (including the names of individuals)
 - mandatory narrative reporting requirements within the Guidance could create unintended consequences (either duplicating information or conflicting with regulatory or jurisdictional requirements)
 - there should be explicit reference to, and the incorporation of, concepts from the existing frameworks, including information on value drivers and “the capitals” in the Integrated reporting framework.
 - there was a need to report funds and their constraints effectively
 - connectivity deserves greater emphasis.

Sustainability Reporting

- 4.5 A small but significant number of respondents indicated that due to the impact and increased prevalence of climate change and the environment that sustainability or (ESG) reporting should be included as a mandatory element in narrative reporting with some referring to developments in sustainability reporting standards.
- 4.6 Commentary indicated that due to the impact that NPOs can have in promoting environmental sustainability there might be arguments for including it on a mandatory basis (but note the respondent that commented on this was not of the view that it should be mandatory).
- 4.7 A small number of the respondents indicated that the requirements could be introduced in a less complex way with others indicating that it could be scalable. This is countered, however, by a similar number of respondents that agreed with the scope including the commentary that it was too early to include sustainability reporting in INPAG at this stage.
- 4.8 Sustainability reporting continues to grow in importance and will continue to do so as the climate emergency is unlikely to diminish. Since Exposure Draft 1 was issued, the International Sustainability Standards Board (ISSB) has issued two standards (S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures*).
- 4.9 There are, as yet no internationally developed standards for either the public benefit sector or the public sector, either issued by the ISSB, IPSASB or the Global Reporting Initiative (GRI). The initial focus has been on the private sector and primarily to meet the needs of resource/product-based businesses and industry. They would likely require adaption for use by NPOs.
- 4.10 The IPSASB is progressing with the development of a public sector specific Climate-Related Disclosures standard. The Exposure Draft is anticipated to be approved for

publication by the IPSASB in September 2024. The final standard may not be issued in time to be considered in the development of the INPAG Guidance.

- 4.11 There are broader challenges to introducing mandatory narrative reporting for NPOs as is evidenced by the consultation responses. Also, there is currently insufficient capacity and resources to include specifications for sustainability reporting within INPAG.
- 4.12 The Secretariat is, however, seeking views on the priorities for climate or other sustainability related reporting that could be considered for the future. Understanding these priorities could also help direct those NPOs that choose to produce sustainability information to appropriate materials. For example, TCFD (Task Force on Climate-related Disclosures) is being used or is planned to be used by the international standard setters and could be a good place for non-profit organisations to start should they choose to report on climate change. PAG members are being asked for their views on priorities and demands from stakeholders.
- 4.13 The focus group on 24 April considered sustainability reporting, with 77 per cent of respondents to a poll of the view that more guidance was required on sustainability reporting and 77 per cent also of the view that such guidance should be proportionate. Focus group members agreed with the importance of sustainability reporting with one member raising a concern that NPOs risked losing their unique distinctiveness if it were not embraced. Concerns were also raised about the reporting burden of sustainability reporting particularly for smaller NPOs.
- 4.14 The possibility of scalable approaches, for example, general disclosures on climate related risks could be considered. It is arguable that voluntary inclusion is itself form of proportionate approach while international frameworks are being developed.

Question 2: What are TAG Members' views on the priorities for NPO climate or sustainability reporting going forward?

Question 3: Do TAG members consider that any form of scalable or proportionate sustainability reporting should be included in INPAG on a voluntary basis? If so, what form might that scalability take.

Other comments on scope

- 4.15 A respondent that disagreed indicated that there is a risk that mandatory narrative reporting requirements could lead to duplication or conflict with existing jurisdictional requirements. It is acknowledged that such risks exist, however, this is ameliorated by the guidance being principles based. This should allow an NPO to meet the specifications of both INPAG and any jurisdictional frameworks. The Guidance could clarify that where there is a conflict, regulatory frameworks will override the INPAG requirements (which is likely to be the case in any event).

- 4.16 Another respondent remarked on the need to reflect constraints on funds and how multi-year reporting mean that narrative reporting requirements may not adequately reflect NPOs' needs. The specifications for the reporting of funds in ED3 should be sufficient to demonstrate the impact on the financial performance and financial position of NPOs. Any commentary by NPOs should provide an overview of the funds held and demonstrate the impact of this on performance of the NPO and its activities. As the issue of reporting of funds including their constraints is almost universal for NPOs, Annex D provides some suggestions for additional implementation guidance.
- 4.17 A respondent that neither agreed nor disagreed considered that paragraph G35.11 (presentation of performance information) should include reference to how the risk of harm is addressed by the NPO. This respondent particularly focussed on risk of harm to the community an NPO serves, for example, to avoid inadvertently enabling forms of corruption or discrimination. This can be a difficult issue for NPOs who operate in complex environments and contexts, and it is likely that further guidance might need to be included.
- 4.18 The Secretariat is of the view that this is an important issue. It could be addressed in the Implementation Guidance, but additional guidance might be better included under the section on risks and uncertainties, which would clarify that an NPO needs to include information on how they mitigate against this risk. A suggested illustration of how this might impact on narrative reporting has been added to follow (current) paragraph IG35.19 – see Annex D.
- 4.19 Clarity was sought regarding approaches to the provision of optional “other” information including the impact on comparability, with one respondent of the view that once applied the reporting of other information should be irrevocable. The Secretariat proposes additional application guidance that sets out that information should be based on standards or guidance prescribed elsewhere, that the basis of preparation is described and that this must be consistently applied. This approach to application guidance should encourage a consistent, robust approach to the provision of other information (see Annex D (new) AG35.14 – AG35.17).

Question 4: TAG members' views are sought on whether disclosure is required where an NPO is preparing narrative information in accordance with other standards or guidance?

Question 5: TAG members' views are sought on the suggestions in Annex C and D (including the reporting of service performance) made in response to the feedback on the minimum mandatory reporting requirements.

5. Sensitive Information

SMC 12(c) Do you agree with the proposals that sensitive information can be excluded from narrative reports. If not, what alternative would you propose and why?



- 5.1 Eighty-nine percent, (fifty-six respondents) indicated that they agreed with the proposals in ED1 regarding sensitive information. Eleven percent, (seven respondents), disagreed. Seven respondents did not answer this question.
- 5.2 The ED1 survey on narrative reporting provided support for the overall approach to the exclusion of sensitive information with almost eighty percent (fifty-eight respondents) agreeing that sensitive information could be excluded from narrative reports. When asked about the importance of this exclusion because of potential harm to service recipients, NPO staff or volunteers, just under ninety percent responded that it was important or very important that NPOs should be allowed to exclude sensitive information.
- 5.3 Respondents agreeing with the proposals for sensitive information sought clarification or more guidance on:
- what sensitive information might be (including calls for a definition) because of wide disparities in operating environments
 - when the specifications of G35.7 on sensitive information might apply
 - how information might be disclosed without revealing the pertinent aspects of sensitive information, including calls for the "*justification of the exemption*"
 - the parameters to support decisions about sensitive information within a given context, for example "*an NPO who is working on FGM*" or confidentiality for a hospital or medical based charity
 - whether a set of principles could be devised to help identify circumstances where there is sensitive information.
- 5.4 At the focus group held on 24 April 2024, seventy percent of the respondents to a poll were of the view that more guidance was required. There was significant support for more principles based guidance. However, a focus group member was clear that their organisation's partners NPOs were sophisticated, and were used to dealing with such issues. They understood what sensitive information was and further guidance was not necessary.
- 5.5 Respondents that agreed were concerned that the guidance should be robust enough to avoid misinterpretation and to ensure that adverse practices are avoided, for example, when information may not necessarily be sensitive but might be damaging to the NPO. Their view was that it is paramount that NPOs have the discretion to make an informed assessment as to whether particular information about their organisation is suitable for publication.
- 5.6 A respondent noted that standards relating to provisions, contingent liabilities and contingent assets permit the exclusion of information on the grounds that to do so could be expected to prejudice seriously the position of the entity in a dispute with other parties. Another respondent commented that this allows NPOs not to report on information such as confidential or commercially sensitive information.
- 5.7 The Secretariat has previously argued that it is difficult to define what sensitive information is or even provide an exhaustive list of examples of what is sensitive information. It might be possible to provide more examples, but this risks the



guidance being more rules rather than principles based. It might be possible to devise a set of principles to help assist those NPOs dealing with the possibility that there may be sensitive information considerations. PAG members are being asked for their views on additional guidance.

Question 6: Do TAG members consider that more parameters or principles could be devised to help NPOs interpret the guidance on sensitive information? What are members views on the advantages or disadvantages of either approach?

- 5.8 A respondent that agreed with the sensitive information proposals recommended that IG35.5 should be included in the Authoritative Guidance and be presented immediately after G35.7. This is because paragraph IG35.5 clarifies how sensitive information should be used specifying:

"Permission to not disclose information must not be used by NPOs as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations. It should be reserved solely for situations where disclosure would jeopardise the safety and security of staff, volunteers or the public that benefit from the goods and services provided by the NPO."

The Secretariat agrees that this clarification might be better placed to follow G35.7 or in the application guidance as this sets out the circumstances where the relief may or may not be used.

Question 7: Do TAG members agree that the specifications in IG35.5 should be included in the authoritative guidance as it is a clarification of its use?

- 5.9 Some of the respondents that disagreed did so on the basis of the need for transparent reporting, raising concerns about the rights of users and information needed to take decisions. These respondents supported more disclosure, including the reasons for non-disclosure.
- 5.10 The Secretariat agrees that the rights of users is important, but recognises that NPOs can experience circumstances where the release of sensitive information may impact on the safety of staff and users or on their missions. On balance the Secretariat continues to support permissions to not report information that is sensitive as long as this is not used to avoid reporting adverse performance or governance issues.
- 5.11 At the other end of the spectrum some of the respondents that disagreed were concerned about the form of the disclosure included in paragraph G35.7. They were of the view that where an NPO reports that it has used the exception that *"This disclosure is little better than reporting sensitive activities."* A respondent noted concerns for NPOs with a social justice lens (eg dealing with criminality, corruption or sensitive human rights issues), where their activities may be deemed unlawful by repressive regimes indicating: *"the mere fact that they elect to 'exclude' themselves from providing information due to the sensitive nature, this can 'redflag' them with authorities determined to shut them down or cease their activities"*. The respondent noted that:

"it is shouting to the authorities that the organization has some activities that are at best controversial and at worst could place the organization, and/or its staff and/or its beneficiaries in danger."

- 5.12 Two respondents that disagreed fed back that the reporting requirements might cause difficulties for auditors, with one commenting that: *"Where an organisation might decide not to report anything about those activities and to protect itself by not disclosing that it has taken advantage of the exception. The auditors will then have an impossible choice. Do they put the organisation back in danger by reporting the non-compliance with the guidance or do they put their professional position (and possibly themselves) in danger by colluding with their client and ignoring the non-compliance?"*
- 5.13 The second respondent indicated that auditors would need to be privy to all information to avoid presenting an inaccurate audit report.
- 5.14 Paragraph G35.7 does not require substantial explanation, but requires that the NPO *"should disclose that the narrative report has been prepared in accordance with the requirements of this paragraph but is not required to provide any information that would have the effect of highlighting the nature or substance of the sensitive information"*.
- 5.15 The tone of these two responses suggests that any form of reporting that sensitive information has not been included might lead to difficulties for the NPO.
- 5.16 There may be an option not to disclose that the exemption has been used in extreme circumstances, but in all cases NPOs should notify their auditors. This would also address auditor issues but would also be a substantial departure from traditional reporting. It may also mean that in practice the existence of extreme circumstances is used to avoid risk, which will lead to few, if any, NPOs stating that they are using the exemption.
- 5.17 This respondent also commented that the comparison of actual financial performance with budget could lead to disclosing sensitive information. There Secretariat is of the view that the principles setting on the information to be provided and the approach to sensitive information should be applied in determining whether the information is disclosed.
- 5.18 The Secretariat has discussed this with the Focus Group. Focus group members cited similar issues and although more guidance was supported there were suggestions that such complex issues were difficult to resolve in standards. Feedback is also being sought from PAG members before a way forward is proposed.
- 5.19 The first sentence of paragraph G35.7 restricts the sensitive information to only the non-disclosure of aspects of performance information and financial statement commentary. However, sensitive information may arise across other mandatory elements of the narrative report. Subject to the overall feedback on these disclosures, the Secretariat proposes to amend the non-disclosure so that it can be applied to all mandatory content.

Question 8: Reflecting on this feedback, what are TAG members' views on the level of disclosure needed while ensuring that the sensitive information is not disclosed?

6. Transition

SMC 12(d) Would a two-year transition period assist in overcoming any challenges?

- 6.1 Eighty percent, (forty-seven respondents) agreed with the proposed transition period set out in the SMC. Seventeen percent, (ten respondents) disagreed. Three percent, (two respondents) neither agreed nor disagreed. Ten respondents did not answer this SMC.
- 6.2 The respondents that agreed indicated that a transition period would allow time to absorb implementation challenges including:
- a sufficient period for finance personnel within NPOs to prepare for and learn the requirements of the guidance
 - the possible dependency (at least partial) on the existing requirements for narrative reporting and the extent to which new processes will need to be developed
 - the space for NPOs who will have a steep learning curve on the financial reporting side, such as the introduction of fund accounting and/or accrual basis accounting
 - it will allow for the development of systems needed
 - time to allow for significant cost implications in preparing the presentation of these formats including the increased costs of audits with additional disclosure requirements, and the need to understand and upskill and perhaps even hire additional expertise, in terms of what is needed.
- 6.3 The Secretariat agrees that a suitable transitional period would assist NPOs in meeting those challenges alongside appropriate implementation guidance.
- 6.4 A number of the positive respondents were of the view that there would need to be staged preparations for the production of narrative reports. They set out what they considered might be necessary, with one including an outline of key issues for project plans such as setting the vision and guidelines, policies and formalities for any future presentation (including how sensitive information might be addressed).
- 6.5 The Secretariat agrees that this is useful and that educational materials would assist with implementation as well as additional implementation guidance to illustrate effective practice. Educational materials and activities will follow the publication of INPAG. They may need to be tailored for individual jurisdictions.
- 6.6 A respondent expressed views on the preparations that the project should undertake for implementation ie the need to consult with stakeholders (eg unions, the private and public sector), training all interested parties, including the users of the information, assessment of jurisdictional implementation, evaluation of the norms

once implemented and feedback to improve implementation. A number of respondents mentioned the need for the production of educational materials.

- 6.7 Four of the respondents that disagreed commented that NPOs should be able to meet the requirements as, for example, they already reported on comparative information. These respondents did not consider that narrative reporting was “any more difficult than any of the other INPAG requirements”. This view extended to the cost of providing the information. One commented that it would not help confidence in the INPAG framework if early financial statements that claim to comply with INPAG did not have the accompanying narrative report. Another noted that there would be a better response if all the INPAG requirements were implemented at the same time.
- 6.8 These respondents remarked on how narrative reporting was useful to the users of general purpose financial reports, with one respondent indicating that the inclusion of narrative information was useful for performance reporting highlighting how it has been useful in Australia, New Zealand, the United Kingdom and the United States including reporting in a more balanced way on the negative aspects of performance.
- 6.9 The Secretariat agrees with the benefits of implementing the narrative reporting requirements as soon as possible, but the weight of the responses in favour of a transitional period supports the need for some form of transition to meet the challenges of the production of the narrative report while implementing the reporting requirements of the other sections of INPAG.
- 6.10 This is supported by the responses to the survey on ED1 where just under eighty percent of the fifty respondents agreed with the need for a transition period.
- 6.11 Respondents that both agreed and disagreed debated the length of transition with some indicating that it was too long (preferring one year) and others indicating that it was too short, preferring three years. It might be useful to note that the pre-exposure draft focus group on narrative reporting was significantly in support of the two-year period. As part of the proposals for Section 38 *Transition to INPAG* there is a further SMC to consider the transitional reporting period. It should be noted that the respondents to the survey issued for ED1 equally supported transition periods of one and two years at forty percent for each suggested period.
- 6.12 A respondent that disagreed was of the view that narrative reporting should be separated from the INPAG requirements. As noted in the basis of conclusions, one of the core premises of the INPAG, in order to meet Guidance objectives, would be the inclusion of non-financial reporting information.
- 6.13 The Secretariat is of the view that a transition period is needed and will await the responses to ED3 before recommending a transition period.
- 6.14 Five respondents (including both those that agreed and those that disagreed) were of the view that early adoption of the reporting requirements should be permitted. The Secretariat concurs with this view. This would ensure that the NPOs that have the information could progress and meet the needs of users. It might also help to

identify good and best practice to support the provision of educational materials for others.

7. Implementation Guidance

- 7.1 There were a number of comments on the complexities of narrative reporting including; ensuring that reports are balanced, difficulties in performance reporting and the connectivity of the information produced. The Exposure Draft did not include detailed illustrations but instead highlighted good and best practice. This was to avoid boilerplate narrative reporting.
- 7.2 The Secretariat is mindful that narrative reporting will evolve, particularly as data improves and as technology advances are made. As INPAG is intended to be relatively static guidance, illustrating the narrative reporting requirements may become quickly out of date.
- 7.3 Further guidance could be achieved by focussing on all or some of the elements of the narrative report, with extracts from existing narrative reports to illustrate key components rather than a complete narrative report. This could be a resource available to INPAG users rather than part of the Implementation Guidance. The Secretariat is of the view that this would reduce the risk of boilerplate narrative reports but is unlikely to eliminate it. It would also enable different visualisations of similar information.

Question 9: Do TAG members consider that examples of the elements of the narrative report would be useful to illustrate the requirements? What are TAG members' views on how this might be best achieved?

May 2024



Annex A(i) – Summary of Feedback Responses to SMCs for Narrative Reporting

SMC 12(a) Do you agree with the principles proposed to underpin narrative reporting?	Response	Number	% of those who responded (total 60)
	Agree	60	96%
	Disagree	1	2%
	Neither agree nor disagree	1	2%
	No Response	7	-
	Totals	69	100%

SMC 12(b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional. If not, what changes should be made and why?	Response	Number	% of those who responded (total 62)
	Agree	46	74%
	Disagree	13	21%
	Neither agree nor disagree	3	5%
	No Response	7	-
	Totals	69	100%

SMC 12(c) Do you agree with the proposals that sensitive information can be excluded from narrative reports. If not, what alternative would you propose and why	Response	Number	% of those who responded (total 61)
	Agree	56	89%
	Disagree	7	11%
	Neither agree nor disagree	-	-
	No Response	6	-
	Totals	69	100%



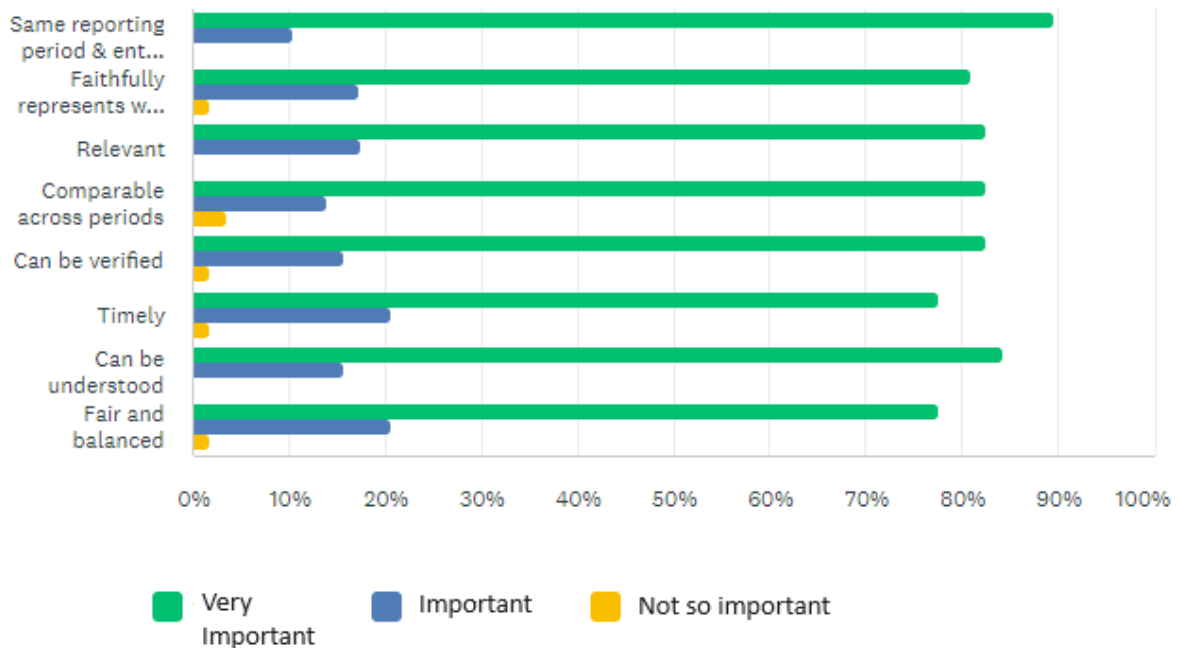
SMC 12(d) Would a two-year transition period assist in overcoming any challenges?

Response	Number	% of those who responded (total 59)
Agree	47	80%
Disagree	10	17%
Neither agree nor disagree	2	3%
No Response	10	-
Totals	69	100%

Annex A(ii) Results of Survey for ED1 Narrative Reporting

How important are the proposed principles about information used for narrative reporting?

Answered: 58 Skipped: 0



Annex B

Question 12a) Do you agree with the principles proposed to underpin narrative reporting?

Comment	Response
<i>The respondents that agreed also commented:</i>	
<p>The description of a “narrative report”, needed to be expressed differently (on a similar basis to the Trustees Annual Report in the UK), the respondents put forward the suggestion of “NPO Annual Report”.</p>	<p>Narrative reporting is often a description of information which accompanies the financial statements and can include the Annual Report. TAG Members will be aware that the IASB Practice Statement is described as a Management Commentary, but commercial and public sector entities often produce Annual Reports or Directors and Strategic reports under UK Company law.</p> <p>Terms used also include service performance reporting and integrated reporting. As the narrative reporting requirements were developed using a principles approach based on the existing IASB Practice Statement and IPSASB Recommended Practice Guidelines (RPGs) and jurisdictional-level frameworks, then the description “narrative report” probably best encapsulates the current guidance. Although there are minimum mandatory reporting requirements, Section 35 does not require that NPOs use the description “narrative report” in the production of their GPFRs</p> <p><i>The Secretariat is of the view that the description “narrative report” should be retained.</i></p>
<p>The narrative report sits alongside the financial statements but is not a part of the statements and more clarity is needed to differentiate the narrative report from the narrative comments in the notes to the accounts.</p>	<p>Narrative reporting requirements are generally different from narrative commentaries provided in the notes or the accounting policies.</p> <p>INPAG indicates that the narrative report is a part of the general purpose financial reports and paragraph G35.20 states that it must be “<i>distinguished from the financial statements</i>”.</p> <p>It may be useful to ensure that there is clear separation between the narrative report from the financial statements as these are often subject to</p>



Comment	Response
	<p>separate confirmation requirements and different forms of assurance under auditing standards. It may also be useful, however, to confirm the separation earlier in the guidance. <i>It is proposed that brief commentary could be included in the scope section of the core guidance (see suggested text at G35.1 in Annex D). This would mean that the text in G35.20 should be removed.</i></p>
<p>The principles ought to reflect the "SMART axiom."</p>	<p>The Secretariat is of the view that the six principles (which are based on the Concepts and Pervasive Principles in Section 2) are SMART: they are specific, allow for measurability (where relevant), are achievable and require that information produced is both relevant and timely. This specificity is continued in paragraph G35.6 which requires that the narrative report should be both fair and balanced and also that it should provide an objective view of the NPO's assessment of performance and the financial statements.</p> <p><i>The Secretariat does not suggest any further changes to the authoritative guidance.</i></p>
<p>The timeliness of the financial statements due to narrative reports being produced.</p>	<p>There are numerous commentaries across the SMCs about the resource implications of the introduction of narrative reporting.</p> <p>The Secretariat agrees that there will be resource implications but as the introduction of narrative reporting was a basic premise in the consultation paper for INPAG. <i>The Secretariat is of the view that this should not change the overall approach. Resource implications can be mitigated by allowing an appropriate transition period.</i></p>
<p>There are several international initiatives developing non-financial reporting frameworks and the Guidance may benefit from consistency with those initiatives, rather than taking its own approach but that a principles-based approach may be more useful in the interim.</p>	<p>No further comments.</p>



Comment	Response
<p>There may be scope to introduce efficiency of narrative reporting within NPO groups. They suggest that the guidance might, for example, allow the parent entity and subsidiary entities to provide less narrative reporting on the basis that users of financial reports can obtain the information from the group report.</p>	<p>There may be possibilities for cross referencing to the narrative report of the parent where the relevant information may be found within the narrative report of the parent. The Consultation Paper highlighted two jurisdictions that had differential narrative reporting requirements with one being based on the greater degree of accountability to civil society and stewardship reporting required of larger NPOs. This is further considered in the response on differential reporting in the following row.</p>
<p>Whether a differential reporting approach might be used because they have observed that smaller NPOs can encounter challenges in reporting service performance information on a resource basis.</p>	<p>The current guidance was drafted using a principles-based approach and, following feedback to the Consultation Paper, was drafted so that it provides a mandatory core of narrative reporting requirements that could be applied by all. Incorporating differential reporting will add complexity to the guidance. This complexity might be exacerbated where differential reporting is required by a jurisdiction. The Secretariat does not recommend the introduction of differential reporting at this stage of INPAG development. There may be future opportunities to explore this in the context of reporting service performance but there are risks that this would reduce accountability. <i>The Secretariat is of the view that the approach in the Exposure Draft should be retained to allow for a minimum standard of reporting across all NPOs.</i></p>
<p>Additional guidance could be provided on how to report non-financial information, such as program impact and sustainability reporting.</p>	<p>This request seeks guidance on both how to report impact and additional reporting. It is suggested that the reporting of impact can be addressed by means of implementation guidance and examples of good practice though the reporting of impact is a particularly complex issue. Sustainability reporting is addressed in the issues relating to the reporting of additional information in the response to further feedback below. <i>The Secretariat will consider the options for additional guidance, balancing the suggestions made in the feedback.</i></p>



Comment	Response
<p>Clarifications should be made to the implementation guidance to include the word "material" so that IG35.7 which states "Faithful representation requires the NPO to provide information that is complete, neutral and free from material error."</p>	<p>The Secretariat would argue that materiality is a pervasive concept throughout the guidance on the financial statements and the narrative report. Explicit reference in a particular area would undermine this pervasive concept and might suggest that it would need to be applied in other sections of INPAG where the application of materiality is perceived as being particularly important. <i>The Secretariat proposes that no amendment is made.</i></p>
<p>The respondent that disagreed commented:</p>	
<p>The narrative reporting requirements would be too onerous for NPOs to provide this additional information in addition to what NPOs are required to report in the financial statements. They suggested that instead some form of tool be developed which grant recipients can complete, which sits alongside the financial statements. Resource implications were also raised by a respondent who agreed with the proposals (and were raised for some of the other SMCs), indicating that the need to produce a narrative report might impact on the timeliness of the production of the financial statements.</p>	<p>The inclusion of guidance on the narrative report has been one of the core premises of INPAG, ie that it includes guidance on the provision of non-financial information and meets the definition of general purpose financial reporting (GPFR). This is to promote accountability and transparency for the users of general-purpose financial reports and to provide a complete picture of the NPO, its nature, its objectives and of financial and service performance. To a large extent the INPAG Practice Guide on Supplementary Statements (including the examples) provides similar support to a "tool" which grant recipients can complete. <i>No further action is proposed.</i></p>
<p>The respondent that neither agreed nor disagreed commented:</p>	
<p>It may be appropriate to separate narrative reporting from INPAG and have this developed separately due to the resource implications.</p>	<p><i>The Secretariat is of the view that this would not accord with one of the basic premises of INPAG, ie to provide guidance for general purpose financial reports.</i></p>

Annex C

SMC 12(b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional. If not, what changes should be made and why?

Comment	Response
<p>Respondents that agreed made the following suggestions for augmentation of the guidance:</p>	
<p>The importance of governance and compliance with local authorities. This was also an issue for a respondent that disagreed (this respondent also suggested that the names of those charged with governance should be disclosed).</p>	<p>Governance is included in both the authoritative and implementation guidance, and where it exists is likely to be a part of the jurisdictional or regulatory requirements of the NPO. This could create conflicts if specified in too much detail.</p> <p>The implementation guidance could include more examples of governance in the narrative report. Information about those charged with governance will be reported as part of related parties' disclosures, which will be set out in Exposure Draft 3. This is more focused on related party transactions and personnel compensation than on information about the individuals. However, the governance arrangements are within the mandatory scope. <i>TAG's views are sought on whether more guidance is needed on how to report governance issues in the narrative report.</i></p>
<p>Including (or even requiring) that an NPO discloses its budgets publicly to present a comparison of budget and actual expenses.</p>	<p>The inclusion of budget information in the financial statements has been considered with the view reached that this is entirely a matter for the narrative report. The disclosure of such information should be consistent with the principles in INPAG <i>The Secretariat proposes that this is included in implementation guidance see suggested new paragraph to follow the current IG35.17 (see Annex D).</i></p>
<p>There should be guidance about the balance of information indicating that their experience is such that NPOs have difficulty in choosing a good balance of information and may disclose too much</p>	<p>The authoritative guidance includes qualitative characteristics of faithful representation and relevance. This should mean that information is only included that aligns with these principles and that reporting is "balanced". Additionally, the Implementation Guidance includes</p>



Comment	Response
information or focus on positive information only.	<p>information about what might be deemed to be “fair and balanced”.</p> <p>The Implementation Guidance also includes reference to only including concise information that is material to the users of the general purpose financial reports. It is possible that the authoritative guidance could include additional commentary on ensuring “balance”.</p> <p>Implementation Guidance could provide more commentary on the information reported, being both clear and concise supported by examples to illustrate how balance might be achieved. <i>The Secretariat proposes additional text in G35.20 as set out in Annex D and to consider how the Implementation Guidance might be enhanced.</i></p>
Mandatory requirements about the efficiency of resources should be included – which should refer to the ratio between direct and indirect costs.	<p>The importance of reporting performance information is prioritised in the guidance. This should lead to commentary on the efficiency of resources. The relationship between direct and indirect costs will also be captured in the financial statements and the inclusion of additional commentary should be a reporting decision based on the activities and circumstances of the NPO. <i>The Secretariat is of the view that examples should not be provided as to do so might infer that specific ratios should be published. This is a contentious issue as what is appropriate might not be for another. The Implementation Guidance could be amended to say that ratios might be an appropriate way of describing performance.</i></p>
The cross referencing between the financial statements/notes and the narrative report should be mandatory.	<p>Cross referencing is included in three paragraphs of the authoritative guidance (G35.22 to G35.24). <i>The Secretariat is of the view that this has been substantially addressed.</i></p>
A majority of the information proposed in paragraph G35.10 could be considered “standing information” that does not change substantially year on year. If there are no material changes in such	<p>This issue arises for most forms of narrative reporting and financial reporting and standards do not directly include specifications to avoid the use of standing information other than referring to information being clear and concise. There is</p>



Comment	Response
information, we suggest including a reference to the location where such information is presented, rather than requiring that extensive detail be repeated in the financial report every year.	a risk that omission of this information which normally sets the context for both the users of GFPRs and for the reporting of performance and the other elements of the narrative report might mean that it is difficult to understand that information. This might be addressed as a part of educational material which is separate from INPAG. <i>The Secretariat does not propose to make any changes to the Guidance.</i>
Service performance information should include specifications on additional information in relation to funds with restrictions.	The Secretariat agrees that this would be useful as implementation guidance in the form of examples (see suggested paragraph at Annex D).
The scope should include service performance objectives and application guidance on how to disclose service performance information in respect of such objectives and progress will be helpful. Also, a note that performance can “straddle” multiple reporting periods.	Paragraph G35.11 includes requirements to describe the performance objectives of the NPO are and what it intended to achieve during the reporting period. The Secretariat is mindful of the additional burdens that adding to the authoritative guidance could create. <i>The Secretariat proposes additional guidance in the Implementation Guidance on service reporting and on reporting over multiple reporting periods (see Annex D).</i>
The scope should include within its qualitative aspects, measurability and attribution.	The Secretariat is of the view that the inclusion of faithful representation and relevance should ensure both measurability and attribution. <i>The Secretariat does not propose to make a change.</i>
There should be clarity about optional additional information.	This issue has been considered in a focus group where 77 percent of respondents to a poll agreed with the level of prescription for other information. 50 percent of respondents were of the view that more guidance would be useful (with an additional 14% holding this view on a conditional basis) <i>Proposals have been included as part of AG35.14.</i>
Concern about the resource implications of the introduction of narrative reporting.	It is acknowledged that there will be resource implications for the introduction/inclusion of narrative reporting. This will be countered by the benefits of increasing transparency and



Comment	Response
	<p>accountability for users of the general purpose financial reports. This is addressed in responses to other feedback.</p>
<p>Respondents that disagreed made the following comments:</p>	
<p>There was a small but significant number of respondents who appeared to be of a strong view that sustainability reporting should be included.</p> <p>Some respondents including ones that disagreed were of the view that this could be “proportionate” or “scalable”.</p>	<p><i>See body of main report for the response and questions for TAG.</i></p>
<p>There is a risk that mandatory narrative reporting requirements within the Guidance could create unintended consequences, for example, if the requirements duplicate or conflict with existing requirements an entity may be required to produce information twice.</p>	<p>This risk is mitigated by the authoritative guidance being principles based and based on the existing IASB Practice Statement, IPSASB Recommended Practice Guidelines and jurisdictional-level frameworks.</p> <p>As suggested at paragraph 4.14 the authoritative guidance might be able to provide some commentary that where there are jurisdictional requirements these should be combined, if possible and efforts should be made not to duplicate information. This paragraph might also specify that where the two conflict regulatory requirements will prevail.</p>
<p>It would be useful to explicitly refer to and incorporate concepts from the many existing frameworks and standards on the disclosure of non-financial information referring to the value drivers and capitals in the Integrated Reporting frameworks.</p>	<p>As noted above the current guidance is based on existing frameworks and includes minimum requirements to assist NPOs where these requirements might be new.</p> <p>The guidance did not include integrated reporting principles (which would refer to value creation and capitals) because they were anticipated to be more complicated for NPOs to apply. The current approach is intended to complement the information in the financial statements rather than require NPOs to also apply broader integrated reporting principles. INPAG specifications on narrative reporting do</p>



Comment	Response
	<p>not preclude entities from using or complying with the other frameworks.</p> <p>As use of INPAG grows it may be possible to include examples on the INPAG website.</p> <p><i>The Secretariat does not propose to make a change to the guidance.</i></p>
<p>Connectivity deserves greater emphasis. As the effect of connectivity cuts across different topics, it should be considered as a qualitative characteristic that will enhance the usefulness of information. It will also complement the existing qualitative characteristics of comparability, verifiability, timeliness and understandability.</p> <p>This respondent refers to connectivity in a separate report describing it in that report as ‘connected corporate reporting’ instead of ‘sustainability reporting’ to indicate that reporting outside of the financial statements should encompass a broad range of factors that affect organisations’ ability to create value in the short, medium, and long term, beyond financial performance and position but equally beyond environmental or social impact.</p>	<p>This is a difficult concept. There will be connectivity between the financial statements and the narrative report and with the narrative report and externally reported information and between different parts of the narrative report. The Secretariat is of the view that these first two items have already been considered in INPAG and the authoritative guidance.</p> <p>The Secretariat considers that the connectivity and the creation of value are similar concepts to that included in integration which is outside the approach decided for ED1 in its approach to encourage and support adoption (see comments above on the inclusion of the integrated reporting framework).</p> <p>Connectivity though is not a term that is explicitly used in the documents that the INPAG specifications are based on. The introduction of connectivity could therefore lead to confusion with NPOs applying the guidance.</p> <p><i>The Secretariat propose to include additional implementation guidance to explain the benefits of setting out the links to other reported information and will explore the possibility of illustrative examples of good and best practice.</i></p>
<p>The need to reflect the constraints on funds particularly as this funding may not be annual.</p>	<p>There should be substantial reporting on funds in the body of the financial statements. As this is an almost universal issue for NPOs additional examples would be useful.</p> <p><i>The Secretariat proposes to amend the Implementation Guidance (an example is included at Annex D).</i></p>



Comment	Response
INPAG must provide clarity regarding optional additional information because if an entity decides to provide such optional narrative disclosures that election must be irrevocable in the future for prospective comparability.	Additional guidance on the provision of “other information” to ensure that this is applied consistently over time would be useful, although this should always be irrevocable as circumstances and reporting needs often change. More detail might be able to be provided see paragraph 4.19 of the main report and Annex D.
Comments from respondents that neither agreed nor disagreed:	
Identified concerns that narrative reporting does not include how the organisation takes steps to understand and address the ‘risk of harm’ from how the organization or its representatives behave. The respondent included suggestions for inclusion in G35.11.	The inclusion of text on how the NPO has taken steps to mitigate the risk of harm might usefully be included in the Narrative Report, this being an important responsibility for many NPOs. This is a focus on operational risk management from for example safety, health and environmental perspectives. This is not explicitly referred to in the authoritative guidance nor the implementation guidance. Issues relating to the risk of harm may also need to be viewed alongside the sensitive information reporting stipulations. As set out in paragraph 4.17 of the main report the Secretariat has initially included some illustrative guidance to follow paragraph IG35.19 in ED1 (see Annex D).
A respondent commented that they felt that there are opportunities for narrative reports being too vague or at a high level.	There is a risk that early attempts at narrative reporting might lead to narrative reports which are vague or at a high level. However, the pervasive principles should counter this. Mitigation will be provided through the Implementation Guidance and Illustrative examples. <i>The Secretariat does not propose to make any further changes than those already proposed.</i>



Annex D – Early Suggestions for change to Core Guidance and Implementation Guidance

Extracted suggestions:

Separation of narrative commentary from commentary included in the notes

G35.1 This Section sets out narrative reporting requirements for NPOs. It provides guidance on the performance information and financial statement commentary that is to be presented by an NPO in the same general purpose financial report as its financial statements. The narrative report is published along with the general purpose financial statements to form the general purpose financial report but is not a part of these statements.

Clear and concise presentation of the narrative report

G35.20 Performance information and financial statement commentary shall be clearly identified and distinguished from the financial statements. Information provided in the narrative report shall adhere to the principles specified in paragraphs G35.4 to G35.8 and be presented in a clear and concise manner.

Additional guidance on the reporting of other information

AG35.14 Where other information is included in the narrative report in accordance with paragraph G35.30, this shall follow the requirements, as far as possible, of section 35. When providing this other information NPOs shall ensure that it does not obscure the information required by Section 35 (see G35.30).

AG35.15 Other information should, if possible be based on standards or guidance that are prescribed elsewhere, or sector/subsector established practices and norms such as international standards for sustainability reporting, governance codes or requirements or recognised performance indicators, where it is provided.

AG35.16 Where other information is provided, the basis of preparation shall be described. Any standards, practices or other approaches used in the provision of other information shall be disclosed.

AG35.17 The basis of preparation, and the use of standards, practices and other approaches shall be consistently applied, including over subsequent reporting periods. Where other information is no longer relevant or useful it may be discontinued, provided that this discontinuation and the reason for it is clearly reported in the narrative report.

Implementation guidance on reporting performance, restrictions on funds and reporting over different reporting periods (paragraphs to follow ED1 IG.17)



IG35.XX Reporting performance information on the services or activities of an NPO might usefully include actual to budget comparisons, particularly where users might take decisions on resource allocation.

IG35.XX Reports of performance may include:

- an overview of the funds;
- their significance to the delivery of performance objectives and the activities of the NPO;
- the nature of any material restrictions on the funds and the effects of those restrictions on the activities of the NPO;
- how resources within those funds have changed during the reporting period, including those which are restricted, and the major movements in the year;
- the policy for holding funds without restrictions to provide financial resilience.

This information should reflect how funds held by the NPO impact on its the performance and its activities and should not merely replicate the disclosures included in the financial statements.

IG35.XX Reporting performance may cover more than one reporting period. Care should be taken to ensure that any performance measures that cover more than one reporting period separately and consistently report the performance for each period and when necessary, provide an overview of the service performance over a period.

Implementation guidance on reporting the risk of harm (to follow current paragraph IG35.19)

IG35.XX For some NPOs a key risk might be the need to have adequate systems to protect service recipients, staff and the NPO from risks of harm, which might occur due to the environments in which they operate in, or the nature of the activities undertaken. Any failures could fundamentally risk an NPO's ability to deliver its objectives and strategies and undermine confidence in its ability to deliver. Mitigations to manage the incidence and impact of this risk would be safeguarding arrangements, systems and protocols or health and safety procedures which operate throughout an NPO's activities.