



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG01-02

14 May 2024 – Online

## Non-profit organisations – Response to ED1

Summary	This paper provides TAG members with an overview of the feedback from the ED1 consultation on Section 1 Non-Profit Organisations (NPOs) and offers proposed approaches to update the final guidance document.
Purpose/Objective of the paper	The objective of this paper is to provide an analysis of the comments received on the SMCs for ED1, which is primarily focused on the broad characteristics of NPOs. It invites TAG members to review the Secretariat's initial proposals for the way forward and to provide advice on areas where further guidance is needed to take account of the respondents' feedback.
Other supporting items	N/A
Prepared by	Nandita Hume/ Karen Sanderson
Actions for this meeting	<b>Advice on the way forward concerning:</b> <ul style="list-style-type: none"><li>i. The concept of 'benefit to the public';</li><li>ii. The use of surpluses to further public benefit;</li><li>iii. The scope and size of private benefits;</li><li>iv. The use of "not being government or public sector entities" as an NPO classification criterion;</li><li>v. The use of indicators to support the application of the broad characteristics; and</li><li>vi. Guidance using illustrative examples.</li></ul>

# Technical Advisory Group

## Non-profit organisations - Response to ED1

### 1. Introduction

- 1.1 This paper:
- provides a summary and high-level analysis of consultation responses to the Specific Matters for Comment (SMC) relating to Section 1, Non-profit Organisations (see Annexes A to C);
  - sets out initial approaches and responses from the Secretariat; and
  - seeks TAG members' advice on several issues raised by the consultation responses, particularly concerning the drafting of the broad characteristics for NPOs to which INPAG will apply and supporting guidance.

### 2. Background

- 2.1 Key to the use of INPAG is identifying those entities that are NPOs. Section 1 is focused on the characteristics of NPOs as a route to identifying which entities should apply INPAG. The IFR4NPO Consultation Paper proposed that a broad characteristics approach is used to identifying those entities to whom INPAG might apply. This descriptive approach is used rather than a single definition given the diversity of NPOs.
- 2.2 The three broad characteristics proposed in G1.2 were:
- they have the primary objective of providing a benefit to the public;
  - they direct surpluses for the benefit of the public; and
  - they are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.
- 2.3 The proposed indicators in the Application Guidance to support the application of the above broad characteristics were:
- an absence of individuals with rights to financial returns from surpluses;
  - a requirement that the NPO transfer residual net assets upon dissolution to an entity with a similar purpose;
  - receiving or providing voluntary funding; and
  - holding and using assets for the benefit of the public.
- 2.4 ED1 included two SMCs for Section 1 to gather feedback on the following:
- whether the broad characteristics sufficiently encompass all potential NPO entities; and
  - the clarity of the guidance regarding which NPOs are intended to benefit from the use of INPAG.
- 2.5 As set out in paragraph 3.1 below, while the majority of respondents agreed with the proposals, a large number of respondents neither agreed nor disagreed with the

proposals in Section 1. Their feedback supported the overall approach to defining NPOs and much of the substance of the proposals, with disagreements related to the specifics of the drafting proposals.

- 2.6 The key issues raised in feedback on the proposals outlined in ED1 were:
- what was intended by ‘public benefit’ in the context of ‘delivering public benefit’ and whether the use of the term ‘public’ was most appropriate;
  - the scope and extent of private benefit that can exist;
  - how membership organisations fit with the proposed characteristics;
  - whether the reporting arrangements for public sector entities should be used as the basis for their exclusion;
  - whether the proposed indicators effectively support the application of the broad characteristics, including whether they should be part of the core guidance; and
  - whether the illustrative examples should be expanded or revised to ensure they adequately represent the range of NPOs active in the sector.
- 2.7 Some of these key areas of feedback were discussed with the Practitioner Advisory Group when it met on 2 May 2024. Feedback from this discussion will be provided verbally. A Focus Group for this topic will be established to seek feedback on the final proposals as they are developed.

### 3. The broad characteristics of NPOs

*SMC 2(a) Do you agree with the description of the broad characteristics of NPOs? Does the term “providing a benefit to the public” include all entities that might be NPOs?*

- 3.1 55% (35 respondents) agreed with the proposals with 10% (6 respondents) disagreeing. The remaining 35% (22 respondents) neither agreed nor disagreed. In this latter group, almost all agreed with the approach, with concerns focused on how the characteristics were expressed. A snapshot of the outcomes is presented in Annex A(i).
- 3.2 The respondents to the survey for ED1 showed high levels of support for the characteristic that “an NPO must have a primary objective of providing a benefit to the public”. However, more than 30% of respondents were of the view that the term “providing a benefit to the public” would not capture all NPOs (See Annex A(ii)).
- 3.3 The majority of the respondents that agreed with the broad characteristics sought clarification or more guidance on what was meant by “providing benefit to the public” and similarly what was meant by the concept of private benefit (per G1.3).
- 3.4 To add context to this, the majority of the respondents (56%) to the survey stated that they would find the concept of “providing a benefit to the public” at least somewhat challenging to apply in determining whether an organisation qualifies as an NPO.

#### 4. The primary characteristic of ‘providing a benefit to the public’

- 4.1 Respondents offered diverse perspectives on whether the term “providing a benefit to the public” sufficiently reflects the mission of NPOs. Some advocated for broader and more inclusive terminology, such as ‘serving public interest’ or “delivering social good”, emphasising the overarching aim of societal benefit. Others suggested specific modifications, such as replacing ‘benefit’ with “social impact’ or specifying it as “non-exchange benefit” to better capture the unique role of NPOs. One respondent proposed the term: ‘providing welfare to the community’, highlighting the role of NPOs as substitutes for absent governmental functions in some jurisdictions.
- 4.2 Respondents suggested that the description of the characteristics of the primary objective of ‘providing benefit to the public’ should be refined to avoid ambiguity. One respondent questioned whether traditional definitions of ‘benefit’ adequately encompassed the services provided by entities like churches, or if the term ‘service’ would be more appropriate.

##### Clarifying the term “public”

- 4.3 Seven respondents explicitly raised a question about whether the term ‘public’ was appropriate. Some were of the view that it risked confusion with the public sector while others contended it risked confusion in understanding how ‘the public’ related to a smaller group of society.
- 4.4 Indeed, a significant number of respondents expressed concerns regarding whether the term ‘providing a benefit to the public’ adequately includes smaller, specific target groups rather than solely focusing on the broader public. One respondent emphasised the importance of clarifying this aspect of the description so that NPOs supporting diverse societal perspectives and values can be included. They illustrated their point using two examples: an NPO opposing selective abortion whilst another supports this procedure and the free choice of women, and an NPO advocating for the early release of drug addicts from prisons for rehabilitation, with another NPO advocating for their continued imprisonment to protect society.
- 4.5 The Secretariat recognises that it is important to emphasise that the public can encompass a range of scenarios and beneficiaries. G1.3 states: *‘This primary objective of providing a benefit to the public may be broad, involving the provision of services and/or goods to the general public, a community or for wider societal benefit. Conversely, it may be narrower and relate only to providing services and/or goods to a specific group or members of an NPO’.*
- 4.6 The Secretariat has previously acknowledged the potential confusion with the public sector and also with the definition of public accountability used in IFRS standards. This confusion could be removed by replacing the word ‘public’ with ‘societal’ and alternatives were suggested in the consultation feedback. One of the respondents proposed redrafting G1.2 (bullet one) as follows: *‘They have the primary objective of providing a benefit to the public or a particular section of the public’.*

**Question 1:** What are TAG members' views on retaining the word 'public' in the characteristics of an NPO? Should an alternative term be used?

**Question 2:** Does it need to be made clear in the characteristic itself that an NPO can be established to support a more targeted group of society?

- 4.7 One respondent noted inconsistencies in how the term 'public' was described between the Authoritative Guidance, Implementation Guidance and the Basis for Conclusions. They also suggested that the definition of 'public' should be clear from the core guidance alone, rather than leaving its interpretation to be clarified through additional documents. The Secretariat agrees with this point and will update all the documents to reflect any redrafting as a result of the feedback provided.
- 4.8 Several respondents pointed out the interplay between 'public benefit' and 'private benefit' and the importance of defining both in order to interpret the guidance, with specific concerns about the intentions regarding 'private benefit'. Two respondents questioned whether the questions relating to 'private benefit' pertain to the first characteristic of NPOs, which focuses on providing a 'benefit to the public', or the second characteristic related to the distribution of surpluses.

#### Private benefit

- 4.9 The proposals in ED1 acknowledged that members of an NPO might receive private benefits, including distribution of surpluses. The proposal stated that private benefits should be incidental to the NPO's primary objective of providing a benefit to the public.
- 4.10 Two respondents queried what was meant by 'private benefit', noting that what might be perceived as a 'private benefit' by one group or individual might not be perceived in the same way by another group.
- 4.11 Clarification was also sought on whether the provision of goods and services to members was the same as the distribution of surpluses when considering private benefits. Another respondent was of the view that where the provision of goods and services is in furtherance of the NPOs objectives, such private benefits should not prejudice an entity being an NPO. The Secretariat is of the view that provision of goods and services is different to the distribution of surpluses, and the distribution of surpluses is further considered in 5.5 and 5.6 below.
- 4.12 Feedback also highlighted concerns regarding the clarity of the permissible extent of private benefits for an organisation to still be an NPO and the threshold at which private benefits could potentially overshadow the organisation's public-serving objectives. This ambiguity, they noted, heightens the risk of misclassification, especially in cases where subjective judgment plays a role in the determination process.
- 4.13 The Secretariat agrees that the provision of goods and services in furtherance of an NPOs objectives should not prevent an organisation from being an NPO. The

Secretariat also agrees that further guidance is required to assist with the application of the characteristics when there are private benefits to avoid different interpretations. The Secretariat proposes to engage with a Focus Group in developing further draft text.

- 4.14 Two respondents suggested that local legal frameworks could be used to determine whether an entity is an NPO. They were of the view that this might address the significance of private benefits, at least locally, in determining whether an entity is an NPO. Such an approach could, however, risk a move away from the principles-based approach and lead to inconsistencies. This could undermine the overarching approach through the use of principles. The Secretariat does not support the inclusion of local legal frameworks as a characteristic, but agrees that this will be relevant in reaching a decision about how to classify an entity. This could be added as an indicator in the Authoritative Guidance or as a factor in the non-authoritative Implementation Guidance. The Secretariat proposes to add this as an indicator in the Application Guidance so that INPAG does not cut across local legislation.
- 4.15 Seven respondents raised concerns regarding the suitability of applying INPAG to membership organisations, especially those with closed memberships, where all benefits are exclusively directed to their members. They expressed uncertainty about whether "members" could be considered as constituting a subset of the "public", highlighting a lack of clarity in this regard.
- 4.16 One respondent highlighted a potential conflict with IFRS. The respondent noted that the preface to IFRS specifies that organisations distributing dividends or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual cooperative entities, are classified as profit-oriented entities. They were of the view that the absence of the concept of 'directly and proportionately' to members of closed organisations in INPAG's criteria for determining NPO status could lead to inappropriate conclusions in certain cases. For instance, organisations like private sports clubs, which provide services and facilities in proportion to membership fees, or those offering member discounts on goods, may require additional judgment to categorise appropriately.
- 4.17 The Secretariat agrees that closed membership organisations that are operating to provide economic benefits directly and proportionately to their owners, members or participants' are profit-oriented entities and should not be within the scope of INPAG.
- 4.18 The Secretariat acknowledge the concerns raised regarding the classification of closed membership organisations as NPOs. INPAG is, however, relevant to membership organisations that are established to benefit society and not just their members. The Secretariat agrees it is not appropriate when membership serves exclusively selected individuals from the community or locality rather than benefiting the broader public or a segment thereof.
- 4.19 The Secretariat is of the view that redrafting will be required to clarify that there is an important distinction between membership organisations that are acting for the greater good of society and those that are acting for the benefit of their members and

where there is a direct and proportionate relationship to their economic benefits. The Secretariat also proposes to remove paragraph AG1.1, which provides examples of membership organisations that offer private benefit to reflect the updates.

**Question 3:** Do TAG members agree that the provision of goods and services in furtherance of an NPOs objectives should not prevent an organisation from being an NPO? Do TAG members have a view on what is incidental?

**Question 4:** Do TAG members agree that local legal frameworks should be added as an indicator in the Authoritative Guidance?

**Question 5:** Do TAG members agree that the characteristics should be redrafted to exclude membership organisations where the economic benefits are direct and proportionate to members' participation?

## 5. 'Directing surpluses for the benefit of the public'

- 5.1 Respondents raised a number of questions in relation to the second broad characteristic. They highlighted lack of clarity in the guidance regarding the extent to which surpluses can be allocated to purposes other than public benefit without compromising an entity's status as an NPO.
- 5.2 A respondent pointed out the challenge with using the term 'surplus' noting that it typically implies resources exceeding what is required. In their view, this term '*does not usually refer to expenditure incurred in relation to the general organisational operations – for example the provision of aged care*'. Another respondent emphasised the need for clearer criteria, particularly in the light of potential tax implications, to ensure consistent interpretation and compliance with this characteristic.
- 5.3 One respondent did not agree with the use of the term 'surplus'. Two respondents suggested redrafting to offer additional clarity for organisations operating at a breakeven point or those retaining surpluses to build future financial capacity. Respondents also requested clarity about NPOs that have profit making operations that are used to meet their missional purposes.
- 5.4 This feedback has demonstrated different interpretations of 'surplus'. In drafting the characteristic the Secretariat had intended surplus to be considered at a whole of entity level and the existence of a surplus to not in itself to be a characteristic. Some respondents appear to have considered surplus at a grant or project level expressing concern about being able to apply these surpluses to, for example, general overheads. Others have interpreted the guidance to mean that if no surplus is made an entity cannot be an NPO.
- 5.5 Four respondents argued that entities distributing surpluses to their members should not qualify as NPOs. They advocated for the removal of this possibility from the guidance. The Secretariat in principle supports this proposal, however, it acknowledges that it is possible given differing legal structures globally that an organisation that is fundamentally operating for public benefit makes a distribution.

INPAG could continue to include organisations that have nominal equity holdings but exclude those that distribute surpluses. This could, however, have unintended consequences.

- 5.6 The Secretariat proposes to amend the references to 'surplus' to make clearer that the use of 'surpluses to benefit the public' is intended to be considered at a whole of entity level and to not require a surplus to exist to be an NPO. The Secretariat proposes to continue to allow distributions, but consider the inclusion of a threshold to ensure that these are immaterial and essentially an administrative requirement.
- 5.7 Five respondents suggested that the 'absence of the profit motive' should be a broad characteristic. These respondents questioned whether 'directing surpluses for the benefit of the public' adequately captures the non-profit motive of NPOs in fulfilling their mission. They were of the view that absence of profit motive was the key characteristic of NPOs and should be given due prominence.
- 5.8 The Secretariat agrees that absence of profit motive is fundamental to the existence of an NPO. The drafting of the first two characteristics were intended to address this by covering the purpose of the entity (characteristic 1) and the general inability to distribute surpluses (characteristic 2). To respond to feedback, the ordering of these characteristics is considered in paragraph 7.1 below. Given the number of respondents who raised this point there is a question about whether this needs to be explicit in the core guidance or Application Guidance.

**Question 5:** Do TAG members agree with the proposed clarifications to 'surplus' in the context of 'directing surpluses for the benefit of the public'?

**Question 6:** What are TAG members' views on the potential to include a threshold for the making of distributions by NPOs and how this might be framed?

**Question 7:** What are TAG members' views on explicit references to the absence of profit motive in the authoritative guidance?

## 6. Use of INPAG by public sector entities

- 6.1 Six respondents raised concerns regarding the third characteristic of NPOs, which states that public sector entities that should prepare general purpose financial reports under public sector financial reporting standards are not NPOs. There was support for the aim to avoid overlap with reporting requirements under IPSAS. However, these respondents didn't agree with the approach and expressed concern that it might result in an inappropriate outcome for certain entities.
- 6.2 Two respondents were of the view that INPAG should be framed for the entities it is intended to cover based on their activities or operational structure. They did not agree that the public sector reporting requirements should be the defining characteristic.



- 6.3 The feedback highlighted that certain government-controlled entities, particularly those that operate at arms' length from government, may be required to follow a prescribed reporting framework that is not IPSAS. For these entities, INPAG might provide an appropriate framework and the view of respondents was that this should not be prohibited.
- 6.4 Four respondents proposed that the third characteristic in G1.2 be revised to allow government or public sector entities that produce general-purpose financial reports to use alternative specified reporting frameworks in addition to public sector financial reporting standards. This suggestion does not address the concern that this characteristic is framed in the context of a reporting framework rather than the nature of the entity and its activities. Care also needs to be taken to ensure that INPAG does not over-step its remit in setting reporting frameworks, which this suggestion might imply.
- 6.5 The Secretariat acknowledges the concerns about the framing of the third characteristic and that it might be more appropriate to focus on how an NPO operates rather than its reporting requirements. The Secretariat does, however, want to keep clarity about the respective roles of INPAG and IPSAS. The Secretariat will consider how this can be redrafted to permit the use of INPAG where appropriate and decided by the local jurisdiction.
- 6.6 A further point was raised about the need for clarity regarding the definition of 'public sector or government entities' especially as governments also do not operate with a profit motive. One respondent cited situations where an entity carries out activities on behalf of a government in response to national emergencies, such as natural disasters. In such cases, it may not be immediately evident whether the entity is deemed part of the government in this capacity.

**Question 8:** What are TAG members views on the approach to permitting public sector entities to exceptionally use INPAG and how this might be framed?

## 7. Ordering of the characteristics

- 7.1 Four respondents questioned whether the characteristics appeared in the right order. These respondents were of the view that the first characteristic should relate to the general absence of a profit motive in fulfilling an organisation's mission, with the second objective relating to the purpose of the organisation, ie providing a public benefit. This was frequently raised in the feedback. As all of the characteristics need to be met for an organisation to be an NPO, any reordering would not impact the outcome, but could be important for ease of understanding. Any decisions about reordering need to be linked to a decision about whether 'absence of profit motive' needs to be explicitly included in the characteristics.

**Question 9:** What are TAG members' views on the ordering of the characteristics in the light of the feedback about how the characteristics should be framed?

## 8. Use of indicators to support application of broad characteristics

- 8.1 Three respondents explicitly recognised the usefulness of the indicators to assist entities in determining their NPO status, while only one respondent expressed concerns. This respondent suggested the removal of the indicators as they were of the view that as currently drafted they had the potential to create uncertainty.
- 8.2 One of the respondents who supported the use of indicators suggested the need for additional indicators. This suggestion was so that indicators could be tailored to address the nuances of more complex NPOs, which may not be adequately addressed by the broad characteristics. However, specific examples were not provided by the respondent to illustrate these nuanced situations.
- 8.3 Another respondent supported the overall approach of using indicators but recommended specific enhancements. They proposed that the first indicator be further refined to read: 'An absence of individuals, or groups of individuals, with rights, directly or indirectly, to financial returns from surpluses.' Meanwhile, another respondent proposed integrating the indicator requiring assets to be transferred to a similar entity into the set of broad characteristics.
- 8.4 The Secretariat does not propose to amend the indicators in the Application Guidance at this time. However, there might be a need to redraft them after making changes to the core guidance. Further input will also be sought from the Focus Group set up to consider issues relating to the definition of NPOs.

**Question 10:** Do TAG members agree that no changes are needed based on the feedback received and that they should be considered further when the characteristics have been updated?

## 9. Guidance through illustrative examples

- 9.1 Five respondents raised questions about whether more guidance should be provided to assist NPOs by providing defined classes or categories of entities that would be NPOs.
- 9.2 Two respondents suggested that a decision tree be added to help entities locate themselves and identify whether they are an NPO. In both cases the respondents saw such guidance linking to classification families.
- 9.3 Three respondents said that they would like to see the guidance refer to types of activities (classification families) which would form an entity's institutional objects. Such classification would characterise an NPO. The following examples were provided:
- the provision of mental, physical or social needs of persons or families;
  - the rendering of charity to persons or families in distress;
  - the prevention of social distress or destitution of persons or families;

- the provision of assistance in, or promotion of, activities aimed at uplifting the standard of living of persons or families;
- the provision of funds for legal aid; the prevention of cruelty to, or the promotion of the welfare of, animals;
- welfare to the community;
- all NGOs.

9.4 However, while these are useful examples, this list is unlikely to be sufficient to identify all NPOs. Moreover, maintaining separate lists could lead to future requests for additions, potentially raising questions and complications.

9.5 In developing INPAG it was decided to take a characteristics-based approach to identifying NPOs because the diversity of NPOs means it would be practically difficult to develop a single definition that would cover all types of NPOs. The Secretariat remain of this view. As a consequence, the Secretariat proposes to consider further examples for the Implementation Guidance, but not to provide classification families. The Secretariat will also consider whether it is possible to create a meaningful decision tree to support the application of the characteristics and indicators.

**Question 11:** Do TAG members agree with the proposed approach to the request for additional guidance?

## 10. NPOs that are intended to benefit from the use of INPAG?

*SMC 2(b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?*

10.1 68% of those that responded agreed with the proposals with 10% disagreeing. As with the first question there was a significant, but lower proportion (23%) that neither agreed nor disagreed. Many of the points raised related to the feedback to SMC 2(a).

Comments from those who agreed

10.2 Several respondents agreed with the intention of INPAG to primarily serve those needing accrual-based financial information. However, they suggested that more guidance could help NPOs in deciding which framework to use, considering factors like the materiality of assets and liabilities. One respondent emphasised the significance of an NPO's size in terms of funds collected as a criterion for using INPAG.

10.3 Respondents pointed out the potential usefulness of INPAG for NPOs lacking specific financial reporting formats, while cautioning that the burden may outweigh the benefits for some smaller NPOs. One respondent highlighted the importance of tiered guidance, particularly for entities using cash-based information.

- 10.4 Concerns were raised about the term "*public accountability*" and its implications for NPOs, particularly in jurisdictions like Canada, where the legal distinction between publicly accountable enterprises and NPOs is crucial.

Comments from those who disagreed

- 10.5 The respondents who disagreed stated that the criteria proposed lacked the necessary flexibility to accommodate the wide-ranging nature of NPOs and their activities, which was linked to the responses to the broad characteristics already considered. One respondent recommended guidelines based on factors such as being a grantor or sub-grantor.
- 10.6 One respondent was of the view that the Preface should be re-written to make it user-friendly and explains the case for using INPAG in plain English. The Secretariat will respond to this as part of the feedback on the Preface.

Comments from those who neither agreed nor disagreed

- 10.7 The respondents who neither agreed nor disagreed mainly emphasised the need for more clarity regarding which types of entities that are intended to be covered by INPAG, particularly those on the border of what constitutes public benefit, such as cooperatives. They suggested the inclusion of decision trees or conceptual frameworks to aid in categorisation and understanding. This was also supported by those that disagreed.
- 10.8 Two respondents also expressed concern about the application of cost/benefit in determining the use of INPAG. There were of the view that there should be more guidance to assist NPOs in determining whether an accruals based framework is suitable for their circumstances.
- 10.9 The Secretariat is of the view that many of these points will be addressed through the responses to the drafting of the broad characteristics. The Secretariat agrees that it would be helpful to include some additional guidance about cost/ benefit and to provide further clarifications around public accountability.

**Question 12:** What are TAG members' views on the need for additional guidance on cost/ benefit?

## 11. Other issues

- 11.1 One respondent expressed disagreement with the term NPOs, arguing that it carries a negative connotation. They suggested that these entities should be named based on their purpose rather than what they are not intended for.
- 11.2 The Secretariat acknowledges that framing the term in the negative is not highly desirable, but the term NPO is widely understood globally. The term 'for purpose' has been suggested, but is not proposed as all organisations operate for a purpose.

Alternative terms such as social benefit organisations could be considered but this would require wide consultation.

- 11.3 Another respondent was of the view that the Preface and Section 1 should be complemented by an NPO-specific conceptual framework and suggested its content. The decision not to develop an NPO-specific conceptual framework was taken towards the beginning of the project due to resource constraints. The Secretariat will consider the content suggested for an NPO-specific conceptual framework in structuring the final draft of INPAG.

**Question 13:** Do TAG members agree that the term NPO should be retained?

**May 2024**



## Annex A(i) – Summary of Feedback Responses to SMCs for Section 1 NPOs

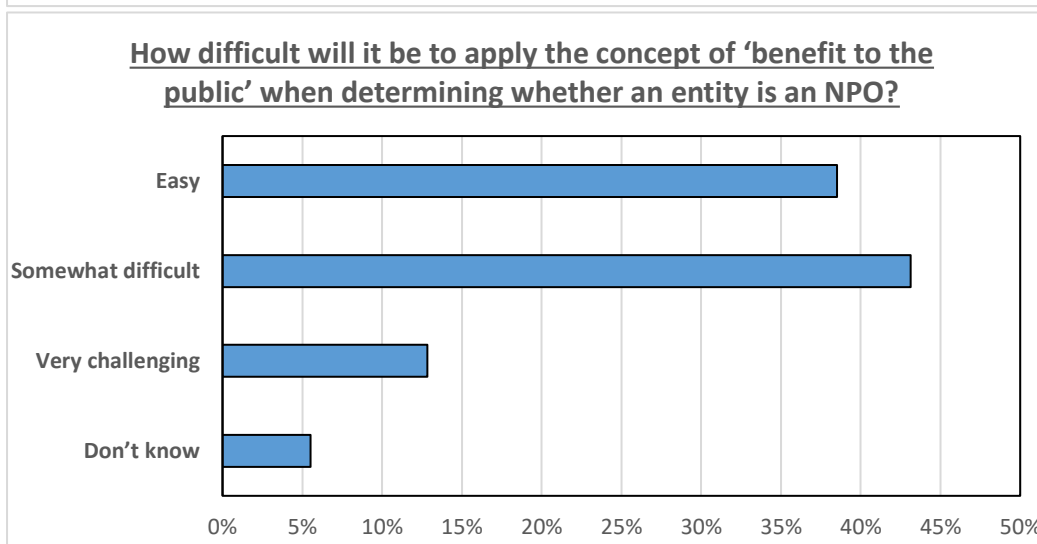
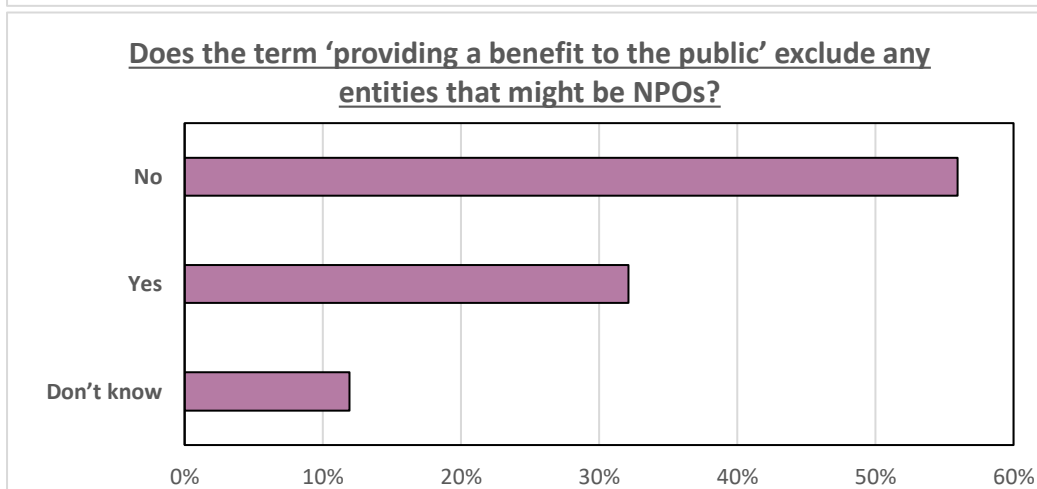
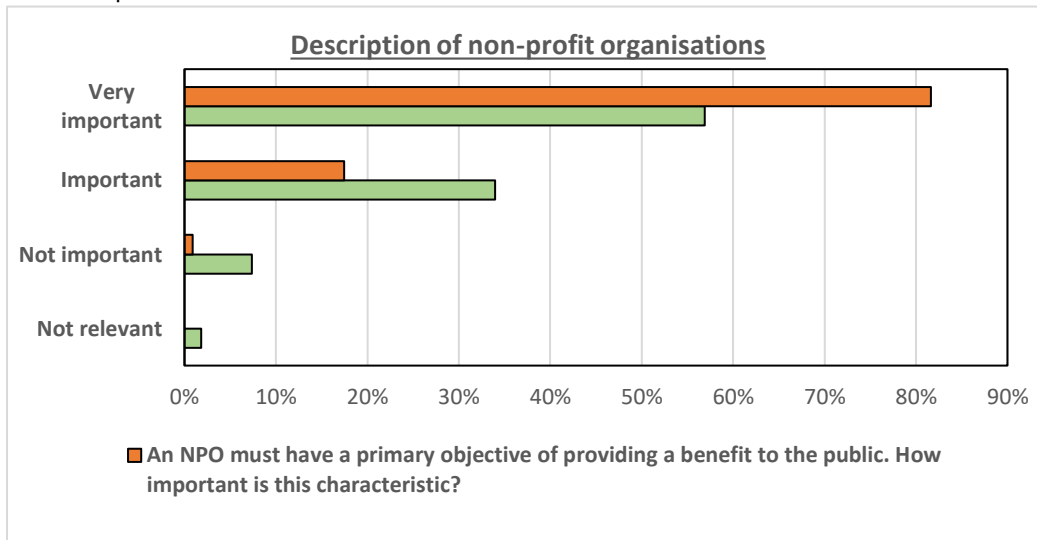
<b>SMC 2(a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?</b>	<b>Response</b>	<b>Number</b>	<b>% of those who responded (total 63)</b>
	Agree	35	55%
	Disagree	6	10%
	Neither agree nor disagree	22	35%
	No Response	6	-
	Totals	69	100%

<b>SMC 2(b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?</b>	<b>Response</b>	<b>Number</b>	<b>% of those who responded (total 62)</b>
	Agree	42	68%
	Disagree	6	10%
	Neither agree nor disagree	14	23%
	No Response	7	-
	Totals	69	100%



## Annex A(ii) Results of Survey for ED1 Section 1 NPOs

Total responses: 109



## Annex B – Consultation feedback (extracts)

*Question 2a) Do you agree with the description of the broad characteristics of NPOs? Does the term ‘providing a benefit to the public’ include all entities that might be NPOs? If not, what would you propose and why?*

Comments - Extracts of responses	Response
<b>The respondents that agreed commented:</b>	
<p>The broad characteristics definition is helpful as the NPO sector is diverse both in specific countries and also between countries, where regulation may segregate specific NPOs from others and legislation focuses on different aspects of NPOs (Cordery &amp; Deguchi, 2018). The INPAG ED’s definition allows for professional judgment by preparers (and auditors), and also provides a way that policy-makers can identify which NPOs they may wish to require to use INPAG.</p>	<p>No action required.</p>
<p>In general terms we agree with the description. More clarity would be appreciated when a benefit is considered public (because benefits to specific segments of the population such as organizations that assist women, may be considered “public benefits”). Mutual associations, non-profit condominium administrations, closed associations or social clubs, to name a few, may find the INPAG useful even if they do not benefit the general public. We suggest that this possibility be indicated, especially to facilitate regulation in some jurisdictions.</p>	<p>In using the term “public”, the Secretariat aimed to balance the specificity of target beneficiaries with the overarching goal of benefiting the broader community, whether that be the general public, a specific group, or members of the NPO. <i>The Secretariat will consider this and all similar feedback in updated draft proposals.</i></p>
<p>Whereas the INPAG intends to be a guidance that is more descriptive rather than prescriptive, the three broad characteristics are more conclusive and seem not to leave room for such features/characteristics that may emerge thereafter. Other than the above observation, we also find that the broad characteristics are too wide for example, the phrase ‘Providing a benefit to the public’ may potentially be misunderstood to denote providing a benefit to all or a large section of the public (despite the elaboration stated under para G1.3), yet in real life we have come across NPOs that serve a particular section of society, however small it may be. We would thus propose to enhance characteristic G1.2 (bullet one) by rewriting it as follows: “They have the primary</p>	<p>The Secretariat’s view is that the broad characteristics in INPAG provide flexibility to allow adaptation to various organisational contexts. It notes the feedback about what is intended by providing benefit to the public. <i>The Secretariat will consider this and all similar feedback in updated draft proposals.</i></p>





Comments - Extracts of responses	Response
objective of providing a benefit to the public or a particular section of the public.”	
In New Zealand we considered whether taking a narrow view of the public (i.e. excluding those entities that served a group who were generally related to each other or, for example care for those with a rare disease) could in itself take away the right to claim a public benefit. On balance and particularly when those individuals are not named in the founding documents as beneficiaries, it was agreed that the size/breadth of ‘the public’ should not constrain such a claim.	No action required.
Yes, the broad characteristics of NPOs is suitable to include all the types.  For the term “benefit” I suggest replacing it with “social impact”, because I think the main objective of NPOs is to make a social transformation in the target societies.	The term ‘social impact’ could emphasise the broader societal effects of an NPO’s activities. However, it could potentially exclude or be perceived to exclude certain types of NPOs. <i>The Secretariat proposes to discuss this and other proposals with the PAG and a Focus Group.</i>
I agree with the terminology used, could not find better. On the other side NPO includes political parties and churches also, so if changes are considered my proposal would be “organized for purpose other than generating profit”.	The Secretariat agrees that organisations such as political parties and churches are being operated for a purpose that is not about generating profit. <i>The Secretariat proposes to discuss this another proposals with the PAG and a Focus Group.</i>
Obviously, I share the opinion that the NPO has certain characteristics of benefit to the public of social welfare to the unprotected population. However, it must be differentiated from the “State, Government of a Country”, which also fulfills in its mandate of the population the common welfare, living well, which is established in its Political Constitution of the State (CPE).	The Secretariat agrees that non-profit organisations need to be differentiated from public sector entities. The drafting of the third characteristic is intended to make this differentiation. <i>The Secretariat will continue to ensure that this distinction is clear in any redrafting of the third characteristic in G1.2.</i>
ICPAU conducted a survey among its members on selected proposals in ED1. The results of the survey revealed immense support for the ED1 description of the broad characteristics of NPOs. However, there seemed to be a sort of confusion among respondents regarding the third broad characteristic which is that NPOs are not public sector entities. We believe this confusion stemmed from the fact that the term “Non-Profit” covers public sector entities as well.	The third characteristic of NPOs in G1.2 was added to separate public sector entities. G1.5 aims to clarify that while NPOs and public sector entities may share similar primary objectives, they are distinct entities with unique characteristics and reporting requirements. <i>The Secretariat does not currently propose a specific action in response to this feedback.</i>
There are NGO’s that are having a profit-making business segment, the exposure draft 1 should	The Secretariat acknowledges the presence of NPOs that engage in activities where this



Comments - Extracts of responses	Response
take care of these kinds of NPOs and how such investments will be presented in the parent company financial statement.	generates funds for the purposes of the NPO. The treatment of investments is covered in Section 9 and is also addressed as part of fundraising in ED3. <i>The Secretariat proposes to make clearer in Section 1 that NPOs can have elements to their operations that generate surpluses if these are applied to the NPO's purposes.</i>
'To serve public interest' – I propose the term because its more general and has broader meaning.	The term 'public interest' rather than 'public benefit' could have a broader meaning. It needs to be considered with suggestions about whether the term public or societal should be used. <i>The Secretariat will discuss this with the PAG and a Focus Group.</i>
We agree on the broad description however we think a dissolution clause requiring the assets to be transferred to a similar entity would complete the broad description as much as it is covered on AG 1.2	ED1 includes two additional indicators: 'an absence of individuals with rights to financial returns from surpluses' and 'a requirement that the NPO transfer residual net upon dissolution to an entity with a similar purpose'. They were identified as being useful in a number of jurisdictions in determining whether an entity exists to provide a benefit to the public. <i>The Secretariat is of the view that this is sufficient and no change is proposed to the core guidance.</i>
Yes, providing benefit to the public but the institutions objects, should include one or more of the following: -the provision of all or any of the material, mental, physical or social needs of persons or families; -the rendering of charity to persons or families in distress; -the prevention of social distress or destitution of persons or families; -the provision of assistance in, or promotion of, activities aimed at uplifting the standard of living of persons or families; -the provision of funds for legal aid; -the prevention of cruelty to, or the promotion of the welfare of, animals;	The broad characteristics allow for interpretation and application within various organisational contexts. The examples in the Implementation Guidance could be expanded to consider the some or all of the suggestions. <i>The Secretariat is of the view that this level of detail is not necessary for principles based guidance and will consider additional examples for the Implementation Guidance.</i>
The term 'providing a benefit to the public' may not include all entities that might be NPOs for the following considerations. For example, in Turkey there is specific type of NPOs which classified as public interest organizations whereas the majority of NPOs are not classified legally as public interest organizations and each type is subject to different treatment regarding tax exemptions. The term	The Secretariat acknowledges the need to consider the broader context in which NPOs operate, including legal classifications and tax regulations, which may vary significantly from one jurisdiction to another. The aim of INPAG is to provide guidance that is relevant and applicable across diverse legal and regulatory landscapes.



Comments - Extracts of responses	Response
<p>'providing a benefit to the public' shall be subject to the purpose of existence (reflected in the vision and mission) rather than being only relevant to the registration form or legal characteristics.</p>	<p>The Secretariat is of the view that jurisdictions can direct entities established under local legal frameworks to use INPAG even if they do not meet the characteristics. <i>The Secretariat does not propose to amend the core guidance.</i></p>
<p>I do agree to a great extent, there is room for additional indicators which could be associated with complex specific NPOs which might not have been captured in the broad description and indicators in the exposure draft.</p>	<p>Providing additional indicators can create uncertainty and lead to a rules based approach. Indicators need to be principles based. <i>The Secretariat will consider the benefits of including additional indicators suggested by the feedback from ED1 and test this with focus groups.</i></p>
<p><b>The respondents that disagreed commented:</b></p>	
<p>[The term] "providing a benefit to the public" is not sufficient as a definition. We propose to add: the NPO should not make pecuniary profit to be shared among its members.</p>	<p>The importance of directing surpluses for the benefit of the public is covered in G1.4,. <i>The Secretariat will consider drafting alongside other feedback.</i></p>
<p>I do not agree with the term "providing a benefit to the public", since the term "public" denotes a very broad concept, it should be changed to "benefit the target audience" that adheres to those ideas. This is important because there may be situations where the public has opposing ideas, for example: a foundation that fights against abortion and another that raises funds to implement abortion in the country, the target audience of each of these foundations is different; It may also be the case that there is a foundation to defend the release of drug addicts in prisons and another foundation that promotes the penalization of drug addicts who commit crimes against property, and similarly both foundations have different target audiences.</p>	<p>INPAG makes clear that 'public' can be a subset of society and does not preclude NPOs with different target audiences. The Secretariat notes that this has the potential to be misunderstood as applying to all members of society. <i>The Secretariat proposes to discuss this further with the PAG and a Focus Group.</i></p>
<p>We believe that the description of the general characteristics of NPOs should be more specific, among other things, because the characteristic related to "direct surplus for public benefit" can very likely become a determining factor for the distribution of surpluses among the members of a small community. This point of distribution of surpluses must be well defined, since, in practice, several NPOs may be left out of this denomination and should comply with the precepts of a private company for profit, thereby harming certain entities, which in essence and targets are NPOs. An example of this are the Savings Banks, which</p>	<p>Flexibility is important to ensure that the guidance can apply to the diverse range of entities that might be NPOs. The points raised are similar to other feedback on the broad characteristics. The Secretariat recognises that additional guidance can be helpful. <i>The Secretariat will seek further advice from the PAG and through a Focus Group to inform drafting proposals.</i></p>



Comments - Extracts of responses	Response
<p>distribute surpluses among their members, to comply with different social benefit days only for their members and family nucleus.</p> <p>On the other hand, the term "providing a benefit to the public" does not, include by itself, all entities that might be NPOs. We deem it convenient to link the benefit with the service or good. We believe that this aspect should be clarified, because providing a benefit to the public is a very broad term, at the same time, very limited in practice, and must be precisely determined in all its facets.</p>	
<p>I do not agree with the description of the non-profit organizations. What about the association providing benefit only to their members and not to any public? The first characteristic need to be rephrased like this: They have the primary objective of providing a benefit to their members and/or to the public.</p>	<p>The Secretariat notes the feedback about when a benefit is considered public and the concerns about membership organisations. <i>The Secretariat will consider this and all similar feedback in updated draft proposals.</i></p>
<b>The respondents that neither agreed nor disagreed also commented</b>	
<p>This is broadly OK, but the wording of G1.2 is a bit confused between the objectives of the NPO and the objectives of the financial statements. However, a clear statement is needed that the smallest NPOs are not expected to follow the INPAG, and there should be at least some sort of pointer to applicable guidance on cash (receipts and payments) accounting for smaller NPOs.</p>	<p>The Secretariat notes the point on the wording of G1.2. The Secretariat agrees that for some NPOs, cash-based or modified cash-based accounting will continue to be appropriate given the needs of their users. Decisions on which entities are required or permitted to use INPAG rests with each jurisdiction. <i>The Secretariat will be considering drafting changes in response to all feedback. The Secretariat does not propose to include a statement relating to the smallest NPOs in the Authoritative Guidance, and will consider further Implementation Guidance.</i></p>
<p>We support the use of a principles-based approach to describe the entities by which INPAG is intended for use, by referring to broad characteristics rather than attempting to define NPOs according to their legal form. However, we think that the attempt to provide detailed guidance on each of the three characteristics risks creating uncertainty. We think it may be advisable to consider limiting the guidance to stating the three characteristics.</p>	<p>The Secretariat agrees that too much detailed guidance can turn principles into rules and agrees that it can also create uncertainty. However, some additional guidance can assist given the diversity of organisations that might be NPOs. <i>The Secretariat will review the additional guidance looking to balance what is sufficient with what might create uncertainty.</i></p>
<p>The first characteristic of an NPO, as set out in paragraph G1.2, is that it has the primary objective of providing a benefit to the public. In principle, we agree with this characteristic, however, we think there is some ambiguity in the drafting of the</p>	<p>The Secretariat notes the drafting comments regarding the wording of G1.2. The intention is to reflect that some NPOs have equity claims but these would not normally be deemed "for profit" entities and out of</p>



Comments - Extracts of responses	Response
<p>guidance around this characteristic, particularly with respect to the provision of benefit to owners or members of the organisation.</p> <p>We think this distinction is complicated by situations where the members of ‘the public’ to whom the organisation provides a benefit are also owners or holders of equity claims of the organisation; for example, a membership organisation.</p>	<p>scope. As currently drafted the holders of these claims are not prohibited from being part of the public that the NPO benefits. <i>The Secretariat will consider drafting changes in response to the feedback related to private benefits.</i></p>
<p>These paragraphs suggest that, subject to consideration of the other characteristics and indicators, an organisation whose primary objective is to provide services and goods only to its own members may nevertheless be an NPO. We think this is potentially inconsistent with IFRS Accounting Standards (and with our standard FRS 102). Paragraph 8 of the Preface to IFRS Accounting Standards states that ‘organisations such as ... mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants’ are profit-oriented entities.</p> <p>Additional judgement may be required in respect of organisations such as private sports clubs, whose members receive access to services and facilities in proportion to their membership fees, or organisations that provide their members with discounts on goods. It is unclear whether the updated characteristics succeed in excluding the intended entities e.g ‘certain types of organisations providing benefit only to a small and privileged membership that could be deemed too exclusive to be viewed as a non-profit organisation’.</p>	<p>The Secretariat agrees that closed membership organisations that are operating to provide economic benefits directly and proportionately to their owners, members or participants’ are profit-oriented entities. <i>The Secretariat will consider drafting changes in response to the feedback related to private benefits and the need for additional guidance.</i></p>
<p>One interpretation of the draft Guidance is that ‘private benefit’ generally refers to the distribution of surpluses to owners or holders of equity claims, i.e. to the second characteristic of an NPO. However, we do not think this can be clearly distinguished from the provision of goods or services, not least because the amount of goods or services provided can directly affect the amount of any surplus remaining for distribution. It is not clear where the dividing line is between ‘public benefit’ and ‘private benefit’.</p>	<p>The Secretariat agrees that the guidance needs to be clearer on the scope of ‘private benefit’. <i>The Secretariat will consider drafting changes in response to the feedback related to private benefits and the need for additional guidance.</i></p>
<p>Regarding the term “They direct financial surpluses for the benefit of the public”, This may</p>	<p>The Secretariat is of the view the NPOs may have multiple operating segments, some of</p>



Comments - Extracts of responses	Response
<p>be directly ... or indirectly through establishing profitable businesses where its surpluses used for the aim of funding the NPOs projects / activities or even programs benefit the public. I suggest to replace the statement to be: "They direct financial surpluses (directly or indirectly) for the benefit of the public".</p>	<p>which may be established to generate returns/surpluses. To be described as an NPO generally where these exist the returns/surpluses need to be directly applied to the purposes of the NPO. The use of the term "indirect" may imply something different. <i>The Secretariat does not propose to amend the core guidance for this point, but will add additional guidance to clarify the position regarding profit making.</i></p>
<p>If an entity providing 'incidental' private benefit may be an NPO but an entity 'mainly' providing private benefit is likely not to be an NPO, the question arises of how much private benefit is enough to tip the balance. We think that defining how much of the benefit provided by an entity is 'private', and whether this is too much for the entity to meet the definition of an NPO, may both be subject to significant judgement. Given the ambiguity over the meaning of 'private benefit', it is also unclear whether this matter relates to the first, or the second, characteristic.</p>	<p>The Secretariat agrees that the amount of private benefit that is able to be earned for an organisation to still be described as an NPO is a matter of judgement. However, given jurisdictional and cultural differences, what is incidental in one jurisdiction may not be in another. <i>The Secretariat will consider drafting changes in response to the feedback related to private benefits and the need for additional guidance.</i></p>
<p>We recommend consideration of further clarification of the ways in which a financial surplus may be directed, which of these are and are not for the benefit of the public, and how much of a financial surplus may be directed other than for the benefit of the public before the entity fails to meet the second characteristic of an NPO.</p>	<p><i>The Secretariat will consider drafting changes in response to the feedback related to private benefit and the need for additional guidance.</i></p>
<p>We understand that IFR4NPO intends to minimise overlap between the scope of INPAG and the scope of IPSAS, and we do not object to this intention. However, we think the third characteristic is potentially ambiguous in terms of whether it is intended to exclude all, or only some, government and public sector entities. The third characteristic could be rephrased simply as 'they are not government or public sector entities,' deleting the words 'that should prepare general purpose financial reports under public sector financial reporting standards'. However, this would exclude NPOs that are public sector entities but operated at arm's length and we think that such entities may benefit from the Guidance.</p>	<p>The intention of the drafting is to scope out public sector organisations for whom IPSAS have been developed. The Secretariat acknowledges that INPAG may be useful for some public sector entities particularly those that operate at arms'-length from government. <i>The Secretariat will consider the drafting to enable jurisdictions to use INPAG for such entities if they so choose.</i></p>
<p>Paragraph IG1.9 gives 'taxation' as an example of 'transactions and economic events that are only relevant in the public sector context'. Since</p>	<p>The Secretariat agrees that taxation can apply to NPOs. <i>The Secretariat will amend the</i></p>



Comments - Extracts of responses	Response
<p>taxation is clearly relevant to for-profit entities we think this could be clarified. It is also not clear to us that taxation is necessarily irrelevant to NPOs.</p>	<p><i>text to make clear that 'taxation' in IG1.9 refers to governments' tax raising powers.</i></p>
<p>We recommend that you consider whether the term 'public sector entity' will be understood by users of INPAG and, if necessary, add the definition from IPSAS.</p>	<p>The Secretariat agrees. <i>The Secretariat will add a definition of public sector entities to the glossary.</i></p>
<p>We encourage to reevaluate the term "benefit to the public" especially because the wide definition that could be assumed with the word "public". We also invite to compare the NPO definition you are proposing vs. the one under US GAAP. G1.2 Could be rewritten as follows: For the purposes of INPAG, NPOs are non-business entities that publish general purpose financial reports for external users and have in varying degrees the next characteristics:</p> <ul style="list-style-type: none"> <li>- They have the primary objective of providing the services or goods stated in its mission and vision.</li> <li>- They apply any excess of resources to continue with their activities.</li> <li>- They do not have the financial goal to provide a return or dividend.</li> <li>- They do not act as a in the typical scenario, structure, and other factors for a business entity where the main goal is to obtain a profit and return for the owners or stockholders.</li> <li>- They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards.</li> </ul>	<p>The definition provided under US GAAP serves as a valuable reference point and highlights key characteristics that distinguish NPOs from business entities. While there may be variations in terminology and emphasis between different accounting frameworks, the overarching objective remains consistent: to accurately reflect the nature and purpose of NPOs in financial reporting. Terminology such as 'business' will be considered in the responses to ED3 as it include business combinations. <i>The Secretariat will consider drafting changes in response to this and other feedback.</i></p>
<p>The descriptive approach is ok only that a family tree would make it more illustrative and easy to locate where one falls, the various categories, types and families that fulfill those descriptions.</p> <p>I disagreed with the name NPO right from initial submissions on the grounds that they are actually profit entities in the sense that they are useful. Secondly, the name is already negative and thirdly that they should be called what they are for and not what they are not for.</p> <p>What benefit means-do churches provide benefits or services? When it comes to assets, we are suggesting to value them based on their service</p>	<p>Illustrative examples in the implementation guidance are used to convey the diversity of NPOs. The Secretariat has not previously proposed a decision tree as the diversity of NPOs may make this too complex. <i>The Secretariat will consider whether a decision tree can be developed that will be useful.</i></p> <p>The name NPO is well understood globally. The Secretariat acknowledges that framing such entities in the negative is of concern to some stakeholders. <i>The Secretariat will keep this under review.</i></p>



Comments - Extracts of responses	Response
<p>potential and not benefit potential. Would service provision be a better and consistent option?</p>	<p>The expected social impact of NPOs is likely to extend beyond direct service provision. The Secretariat's view is that benefit comes from the ability of an asset to support services and therefore that they are not inconsistent. <i>The Secretariat does not propose to make a change to the core guidance.</i></p>
<p>The three characteristics are comprehensive. The phrase 'Providing a benefit to the public' is potentially misunderstood as providing a benefit to all or a large section of the public, whereas many NPOs may serve a particular section, such as people in a specific area, with a specific disease, or conservation of a particular habitat or species. The phrase makes sense when seen in contrast to 'private benefit' but its not self-evident when standing alone. It is also infers the concept of the 'public sector' and could lead to confusion with respect to IPSAS. An alternative to consider: NPOs have the primary purpose to deliver social good, (for the benefit of sections of society or the environment.)</p>	<p>In using the term "public", the Secretariat aimed to balance the specificity of target beneficiaries with the overarching goal of benefiting the broader community, whether that be the general public, a specific group, or members of the NPO. The Secretariat acknowledges the potential confusion with the public sector. <i>The Secretariat will consider this and all similar feedback in updated draft proposals.</i></p>
<p>Lack of a model for presenting financial statements for NPOs not supported by donations from third parties as the main source of income such as sports or educational ones. Also, by definition in many countries, condominium boards are non-profit companies in charge of maintaining in good condition the horizontal property where the occupants reside or work, however said occupants are OBLIGATED to pay a periodic rate depending on the same footage of each property so it cannot be taken as a donation although each resident would certainly be the first to be interested in the financial statements generated by the condominium board.</p>	<p>INPAG does not specifically require reliance on donations from third parties as the main source of income to determine NPO status. The Secretariat intends to incorporate a broader range of illustrative examples to ensure the framework's applicability across various NPO contexts. <i>The Secretariat will update the illustrative examples.</i></p>
<p>I agree with the description approach but not with the descriptions. I was expecting the defining characteristics of not-for-profit organizations in G1.2 to include: The General Absence of the Profit Motive; General Absence of Defined Ownership Interest as NPOs are owned collectively not individually. It is also described in INPAG as it is "unlikely to have external parties that have a material financial interest in their net assets (particularly given the characteristics of an NPO)".</p>	<p>The Secretariat notes the emphasis on lack of profit motive and absence of ownership interest. <i>The Secretariat will consider this and all similar feedback in updated draft proposals</i></p>





Comments - Extracts of responses	Response
<p>The absence of direct or proportionate returns on or off of investment.</p> <p>I think [the term ‘providing a benefit to the public’] is a problem as a defining description it needs to compare (similarity) and contrast (differ) it from other entities. What I propose as the thing to be changed is to add on providing benefit to public in absence of the profit motive.</p>	
<p>In the UK, there are some public bodies that would meet the definition of NPOs as they do not apply public sector financial reporting standards. However, they are required to apply a specified accounting framework. It is our understanding of characteristic three, that the intention is to exclude entities who have an existing recognised accounting framework that they are required to apply as public sector entities. To avoid such entities being scoped into the application of INPAG, characteristic three is amended as follows: They are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards or other specified reporting frameworks.</p>	<p>The intention of the drafting is to scope out public sector organisations for whom IPSAS have been developed. The Secretariat acknowledges that some public sector organisations might be included as currently drafted but is of the view that INPAG may be useful for some public sector entities particularly those that operate at arms'-length from government. <i>The Secretariat will consider the drafting to enable jurisdictions to use INPAG for such entities if they so choose.</i></p>
<p>Indicators that an entity might be an NPO should be further refined. The indicators set out in AG1.2 are helpful in complementing INPAG's broad characteristics-based approach in identifying an NPO. However, we suggest that the first indicator be further enhanced to read: 'An absence of individuals, or groups of individuals, with rights, directly or indirectly, to financial returns from surpluses.'</p>	<p>The Secretariat acknowledges the point made. <i>The Secretariat will consider drafting changes in response to all of the feedback.</i></p>
<p>The word ‘benefit’ could be specified further as ‘non-exchange benefit.’ Usually, all entities, whether for-profit or not-for-profit, provide some benefit. For NPOs, the benefits would be non-exchange. As stated in IPSAS 23, Revenue from Non-Exchange Transactions, “In some transactions, it is clear that there is an exchange of approximately equal value. These are exchange transactions. In other transactions, an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions.”</p>	<p>The term non-exchange was not included as it was the Secretariat's understanding that the term was not universally understood. <i>The Secretariat will consider drafting changes in response to all of the feedback.</i></p>
<p>The term ‘providing a benefit to the public’ may create confusion in some environments. For</p>	<p>As noted there are challenges in creating a universal language and the Secretariat</p>



Comments - Extracts of responses	Response
<p>example in South Africa, a Public Benefit Organisation (PBO) is a specific tax designation for prescribed 'Public Benefit Activities'. Therefore "public benefit" is directly related to a tax status in this context.</p> <p>In the SA context is a non-profit that voluntarily registers with the government as an NPO. This is not compulsory. Therefore not all nonprofits are termed NPO's in South Africa. Therefore, the terminology could create more confusion in a South African context. Perhaps, consider an alternative although we realise it is difficult to find a common global term in considering every domestic status.</p>	<p>recognises the potential for confusion that may arise in certain environments, especially where it is directly linked to tax status, as in the case of Public Benefit Organisations (PBOs) in South Africa.</p> <p>INPAG aims to provide guidance that is applicable and adaptable to a wide range of contexts. The term "providing a benefit to the public" is intended to capture the fundamental purpose of NPOs, which is to serve the interests of society at large, regardless of specific regulatory frameworks or tax designations. <i>The Secretariat will consider drafting changes in response to all of the feedback.</i></p>
<p>In general, I consider this approach is clear and leaves headroom for the local regulatory standards, policies and procedures in place in the different jurisdictions to be taken into consideration, as appropriate. We have some comments on the three characteristics.</p> <p>We believe that defining what is a "benefit to the public" should be consistent and converged with the nature of the activities of a reporting NPO, as stated in its bylaws.</p> <p>We believe the exact meaning of financial surpluses could be clarified. Clarification could also state the ways in which such financial surpluses are or are not used for the benefit of the public and how much of this financial surplus could be used or directed to other purposes – rather than for the benefit of the public - without the entity failing to meet this characteristic to be considered an NPO. For example, excess amounts are ultimately used for purposes that are not consistent with the nature of the activities of an NPO, or otherwise, it is not sufficiently evident whether those amounts are used for the core activities of an NPO.</p> <p>We consider that more guidance could be given such as earthquakes, flooding, pandemics, etc., where the activities carried out by NPOs and government sponsored organizations are not clearly cut.</p>	<p>INPAG recognises the diverse range of activities and beneficiaries that NPOs may serve. The Secretariat notes that further principles based guidance regarding the use of financial surpluses and their alignment with the objectives of NPOs is useful. <i>The Secretariat will consider drafting changes in response to all of the feedback.</i></p> <p>The Secretariat is of the view that the example provided in the Implementation Guidance (Example 4. Government sponsored animal shelters) illustrates how the indicators can be applied to determine the NPO status of the entity in accordance with INPAG. <i>The Secretariat does not propose further changes.</i></p>
<p>In Mauritius many NGO's that are empowering beneficiaries through social enterprise are</p>	<p>INPAG does not preclude any specific type of organisation from being an NPO. As such,</p>



Comments - Extracts of responses	Response
<p>converting from NGO's (Associations) to Companies Limited by Guarantee (Social Enterprises). These are still considered as nonprofits. There are no shareholders and all funds raised through the social venture is ploughed back into the organization. They are not profit making so considered NPO's in Mauritius. It would be good then to include not only private benefits from donor surplus but also those funds generated by NPO's themselves.</p>	<p>these activities are covered under G1.4 and permitted by INPAG. <i>The Secretariat does not propose to make any changes to the core guidance and to consider the examples provided for the Implementation Guidance.</i></p>
<p>The term 'public' has been used at many places but the same has not been defined in the ED. While what constitutes 'public' becomes clear on reading of other part of ED, such as, Basis for Conclusions and Implementation Guidance to some extent, it is suggested to define the term 'public' or provide characteristics thereof and provide clarity on the same at one place in the ED because of the following reasons:</p> <ul style="list-style-type: none"> <li>• The concept of public is fundamental in determining whether the primary objective of providing benefit to the public is met for an entity to be an NPO.</li> <li>• Clearly defining the term would not leave any scope for varied interpretations.</li> <li>• NPOs may not have the sufficient skill-set to interpret the meaning of term from different paragraphs of the guidance.</li> </ul>	<p>The Secretariat agrees that the terms used need to be clearly understood. <i>The Secretariat will consider drafting changes in response to all of the feedback.</i></p>
<p>We are of the view that considering the nature of NPOs, there cannot be any element of equity within net assets of the NPO where the holders of equity claims have established a financial interest in or entitlement to some of the net assets of the NPO. Therefore, all the surpluses are utilised for the benefit of the public in NPOs and no surplus can be distributed for private benefit to groups and individuals, such as investors and holders of equity claims. Therefore, the second point of paragraph G1.2 may be redrafted as follows:</p> <ul style="list-style-type: none"> <li>• They direct all the surpluses for the benefit of the public. As a result, paragraph G1.4 may also be redrafted as follows: ".....Organisations that do have a primary objective of distributing surpluses for private benefit to groups and individuals, such as investors and holders of equity claims, are likely to be for-profit private sector organisations....."</li> </ul>	<p>The Secretariat notes the feedback about equity, however, in some jurisdictions the use of equity in some form is mandatory for NPOs. INPAG therefore needs to allow for this possibility noting that it should be incidental and as a result of a legal requirement rather than a means to distribute surpluses to the holders of equity claims. <i>The Secretariat will consider drafting changes in response to all of the feedback, including the feedback on ED3.</i></p>



Comments - Extracts of responses	Response
<p>We broadly agree with the term 'providing a benefit to the public' as a key characteristic of an NPO. However, we believe that paragraph G1.3 still has not clearly addressed the scope of the term "public". Clarity of this term is essential to being able to distinguish between public benefits and the private benefits. We note that paragraph IG 1.7 and Example 3 in the implementation guidance includes private benefits such as those to members of a sports club as "public benefits", we suggest further consideration be given to the description in the body of INPAG. Otherwise, a number of NPOs could be precluded from using INPAG.</p> <p>We suggest the development of an overarching definition of an NPO that is supported by the description. This definition could include the characteristics "providing a benefit to the public" and "direct surpluses for the benefit of the public". Such a definition could also restrict the ability of NPOs to make a financial return to those with equity claims.</p>	<p>The Secretariat agrees that the guidance needs to be clear about what is meant by public benefit and the scope of 'private benefit'. <i>The Secretariat will consider drafting changes in response to the feedback related to private benefits and the need for additional guidance.</i></p>
<p>Paragraph G1.2 excludes the use of INPAG by government or public sector entities that should prepare GPFRR under public sector financial reporting standards. In Australia, the majority of public sector entities are considered to be NFPs for financial reporting purposes. Likewise, in New Zealand the majority of public sector entities are considered to be public benefit entities (PBEs). It is not clear why INPAG should be restricted for use only by private sector NPOs. We suggest that the scope of INPAG should be aimed at NPOs, and it should be left to jurisdictions that adopt the guidance as to whether it can be used also for their public sector entities. In particular, this approach may be useful for jurisdictions in which no public sector specific accounting standards have been adopted.</p>	<p>The intention of the drafting is to scope out public sector organisations for whom IPSAS have been developed. The Secretariat acknowledges that INPAG may be useful for some public sector entities and that there are benefits in letting each jurisdiction determine whether INPAG should apply to public sector entities. <i>The Secretariat will consider the drafting to enable jurisdictions to use INPAG for such entities if they so choose.</i></p>
<p>We believe it is necessary to expand the concepts of "public benefit" and "private benefit". The description "providing a benefit to the public" could make it difficult to conclude whether an entity meets the definition of an NPO (and is eligible to apply the Guide), since something that one group in society might perceive as a benefit, another might not. Therefore, we consider that it</p>	<p>The Secretariat notes the comments made regarding the concepts of public and private benefit. The inclusion of local jurisdiction legal frameworks will require careful consideration, but the Secretariat recognises that ultimately it will be for each jurisdiction to decide to which organisations INPAG will</p>



Comments - Extracts of responses	Response
<p>would be better to eliminate this characteristic from the definition (the key item being the fact that the entity does not distribute profits). Another case is that in some types of entities, such as cooperatives and associations, the only beneficiaries of the activity carried out by the organization are its associates. In these cases, this may not be considered a benefit to the public. We recommend including a paragraph that considers the use of the local jurisdiction (legal framework) as one of the elements to determine if the entity meets the definition, for the aforementioned concepts.</p>	<p>apply. <i>The Secretariat will consider the request to reference local legislation in the guidance.</i></p>
<p>.....The ACNC will generally accept that an organisation meets the not-for-profit requirement where the organisation has demonstrated that it does not operate for the profit, personal gain or other benefit of particular people, including its members or the people who run it, unless such benefit is provided as part of genuinely carrying out the entity's purpose(s). This requirement applies both while the organisation is operating as well as on the organisation's winding up or dissolution. We consider that use of the term "surplus" is difficult. We query whether 'resources' may be a more accurate word to use? If surplus is what is meant, then further clarity is required on the impact of the definition for organisations that operate on a breakeven position or retain their surpluses to build future financial capacity. For completeness we also note that in Australia charities can undertake commercial operations for the purpose of generating surpluses to support their charitable endeavours.</p>	<p>The Secretariat notes the point raised regarding surpluses. The intention was not to restrict INPAG to only those organisations that makes surpluses but to ensure that should there be surpluses they are directed to the public benefit. The Secretariat agrees that NPOs can undertake commercial operations for the purposes of generating surpluses to supports its mission. <i>The Secretariat will consider drafting changes in context of all of the feedback received.</i></p>
<p>Providing a definition bounded by public sector reporting standards may on the surface reduce complexities. However, we are concerned that the suggested definition places too much reliance on other reporting requirements and insufficient focus on the very distinct natures of NPOs and government entities.</p>	<p>The intention of the drafting is to scope out the public sector organisations for whom IPSAS have been developed. The Secretariat acknowledges that relying on reporting frameworks may result in unintended consequences. <i>The Secretariat will consider the drafting relating to public sector entities.</i></p>

## Annex C – Consultation feedback (extracts)

SMC 2(b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?

Comments – Extract from responses	Response
<b>Comments from those who agreed</b>	
An important criteria of using INPAG is the size of an NPO in terms of funds collected.	Noted. It will be for each jurisdiction to determine to which entities INPAG will apply. <i>The Secretariat will consider whether it is helpful to include this in the Implementation Guidance.</i>
There may be some uncertainty at the margins – whether an entity should comply with INPAG or IFRS, or whether INPAG or cash-based accounting would be more appropriate. However, I do not think it would be possible to find a realistic or reasonable approach that does not have such uncertainties.	No action required
There are NPOs working with the government, to build the government capacity in delivering better service delivery. They NPOs do not have a direct interaction with the public but through government. Some of them are not sure the definition or explanatory notes may not include such NPOs.  There are NPOs which are not governed by the national regulatory body. In our case there are regional organizations, like those related directly or indirectly to the African Union. The national jurisdiction (both the accountancy body and the relevant regulatory body) may not enforce the application of INPAG by such entities.	The Secretariat notes these examples. <i>The Secretariat will consider further examples to illustrate the types of entities that might use INPAG.</i>
I found well described. Kindly request to be mentioned somewhere is all NPO are NGO and vice versa, because a lot of people are confused on this and in other guidelines and handbooks ..... definition for NPO or NGO has not been given or distinction between them.	The Secretariat is of the view that NGOs are a type of NPO. It does not agree that all NPOs are NGO given the diversity of NPOs. <i>The Secretariat will include NGOs as an example in the Implementation Guidance.</i>
According to the Exposure Draft the INPAG is intended to be used primarily by those that need to prepare financial information on an accrual basis because they and their users need information on assets and liabilities, and detail on income and expenses, that can only be provided by accrual accounting.	The Secretariat notes the feedback regarding cost benefit. It would be possible to add additional guidance in the Implementation Guidance on the cost benefit considerations in applying INPAG. The Secretariat notes that providing accrual based information may result in additional cost that is to the overall benefit to stakeholders. <i>The Secretariat will add</i>



<p>While the definition provided by the document is clear, perhaps more guidance could help the NPOs on deciding which framework they should use. For instance, in some cases the primary users may need information on assets and liabilities, but given their lack of materiality, the benefits of adopting the INPAG may not justify the costs of doing so.</p>	<p><i>additional guidance in the Implementation Guidance but making clear the overall objective of accrual accounting.</i></p>
<p>We consider that Section 1, together with the preface, provides clear guidance on which NPOs are intended to benefit from the use of the INPAG. .... In our experience the middle 'INPAG' sector is more nuanced than currently stated. There are many small NPOs that use accrual-based accounting.</p>	<p>It will be for each jurisdiction to determine to which entities INPAG will apply and so such nuance can be locally determined. <i>No further action is proposed</i></p>
<p>Generally, yes; however, the term 'public accountability' is problematic. Although it is defined in IFRS, we think that there are many jurisdictions, including Canada, in which most people would think that all or most NFPOs are publicly accountable. Suggesting that publicly accountable organizations should use IFRS may push some jurisdictions/NPOs to IFRS where it is not required, or particularly appropriate</p> <p>In Canada, we use the term 'enterprise' to differentiate between business organizations that exist primarily for profit and NPOs. Only publicly accountable enterprises use IFRS. We would suggest that there should be no confusion in the definitions that could possibly lead a NPO to conclude that they must follow IFRS, rather than INPAG when it does not meet the definition of public accountability in IFRS.</p>	<p>The Secretariat acknowledge that the use of public accountability in IFRS may be in conflict with what is commonly understood about what it means to be accountable to the public. INPAG uses the term societal accountability to reflect this accountability. <i>The Secretariat will be considering INPAG terminology in response to the feedback in ED1.</i></p>
<p><b>Comments from those who disagreed</b></p>	
<p>The Preface needs to be complete rewritten to make it a user-friendly intro that really welcomes the reader and explains in plain English the case for using INPAG</p>	<p>The Secretariat notes this feedback. The use of plain English is being prioritised. <i>The Secretariat will consider alongside the responses to Question 1.</i></p>
<p>I don't think it is clear without a factor/ description/family tree that would provide an illustration easily. We have many types and classes of NPOs. It would be very important to give the key identification/distinguishing features then a family tree to help readers understand what to call themselves.</p>	<p>The nature of NPOs is diverse and it is challenging to capture all types and classes. This is why INPAG adopts a principles based approach. <i>The Secretariat will consider whether a decision tree can be developed that will be useful.</i></p>



<p>It needs a tiered guidance by nature or size of the NPOs. Further a recommendation for staged adoption could be a plus.</p>	<p>INPAG is intended for all types of NPOs and it is not clear why it would need to be tiered by nature. Adoption is considered in Section 38. <i>The Secretariat does not propose to make any changes to this version of INPAG.</i></p>
<p>In our judgment, Section 1, together with the Preface, does not by itself provide clear guidance as to which NPOs are intended to benefit from the use of INPAG..... To characterize an NPO, the variables are very diverse depending on the internal conformation and registration structures;</p>	<p>INPAG is based on broad characteristics to allow judgement about whether an entity is an NPO. The Secretariat believes that these can apply to a diverse range of NPOs. <i>The Secretariat will be considering drafting changes to the broad characteristics in response to feedback on ED1.</i></p>
<p>This is not very clear. While it may not be practical to set guidelines based on size, however guidelines based on being a grantor or sub grantor can be considered. For example, an NPO that is a grantor to other organisations should be reporting on accrual basis and therefore subject to INPAG reporting.</p>	<p>Noted. <i>The Secretariat will update the Implementation Guidance to include sub-granting as an additional factor likely to indicate an NPO that should be using INPAG.</i></p>
<p>We do not believe that the ED provides clear guidance on the types of entity that are expected to benefit from INPAG. The IFRS for SMEs concept of not having “public accountability” is not directly applicable to the NPO sector. Without a clear understanding of the size and nature and accounting capabilities of the preparer population this guidance is designed for, and a clear understanding of the user groups it is targeting, cost/benefit decisions on the actual requirements will be difficult to make or clearly justify to stakeholders.</p>	<p>The Secretariat acknowledge that it may be challenging for some NPOs to determine whether to apply INPAG, but given differences globally in types of NPOs it will be for each jurisdiction regulator to determine to which NPOs INPAG will apply. The point about cost/benefits of using INPAG are noted. <i>The Secretariat will consider whether additional guidance could assist in consultation with its advisory groups.</i></p> <p>The feedback on primary users will be considered in the feedback to Section 2.</p>
<p><b>Comments from those who neither agreed nor disagreed</b></p>	
<p>By reading the preface and section 1 of the ED, it is clear that INPAG is intended for NPOs that publish general purpose financial reports and confirm to the broad characteristics mentioned under para G1.2. However, the first para of Section 1 concludes with a statement that .....which entities are required or permitted to use INPAG rests with the judgement of relevant authorities in individual jurisdictions.’..... This directly counteracts the jurisdiction and or cross boarder comparison of NPOs as envisaged under para G2.26.</p>	<p>Each jurisdiction will need to determine if it wishes to adopt INPAG and if so to which entities it applies. The Authoritative Guidance together with the Basis for Conclusions is intended to assist the decision makers in each jurisdiction to promote consistency. <i>The Secretariat does not propose to change the approach, but will consider whether improvements can be made to the drafting.</i></p>