Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGFG03-10
26-27 September 2024 – Hybrid

Final Guidance - Section 11 (Financial instruments) and Section 21 (Provisions and contingencies)

Summary	This paper provides TAG members with an analysis of the feedback on the draft text for Section 11 *Financial instruments*, and Section 21 *Provisions and contingencies.*
Purpose/Objective of the paper	This paper includes the main issues raised by in feedback by those that responded to Section 11 and Section 21. The paper sets out the approach to the points raised and proposes updates to the Authoritative Guidance, Implementation Guidance and the Basis for Conclusions in order to finalise these sections for inclusion in INPAG.
Other supporting items	TAGFG03 - Annex
Prepared by	Karen Sanderson
Actions for this meeting	**Comment and advise** on: (i) the approach addressing the feedback provided by respondents on Section 11 and Section 21 (ii) the updates to the Authoritative Guidance and Implementation Guidance (iii) the revisions to the Basis for Conclusions

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Final Guidance - Section 11 (Financial instruments) and Section 21 (Provisions and contingencies)

1. Background

1.1 In line with responses to the Consultation Paper it was agreed to prioritise a limited number of topics for inclusion in the first edition of INPAG. Following discussions with the TAG it was agreed that non-prioritised topics would be updated for consequential changes arising from changes to other sections including the alignment of terminology. This approach was reflected in the updates made to Section 11 *Financial instruments* and Section 21 *Provisions and contingencies.*

1.2 The Third edition of the *IFRS for SMEs* Accounting Standard is being finalised and is expected to be published in the first half of 2025. All INPAG sections will be updated to reflect the finalised text. Any changes emerging from the responses to its Exposure Draft, including where the IASB has provided indicative views are not reflected in the updates provided in this paper.

1.3 The Secretariat intends to finalise the areas of amendment other than those that arising from the finalisation of the *IFRS for SMEs* Accounting Standard.

2. Financial instruments

2.1 A limited number of changes were proposed to Section 11. The main changes were:

- the removal of reference to share-based payments in line with the proposed removal of this content from INPAG;
- updating of the examples to include monetary assets and liabilities arising from enforceable grant arrangements; and
- the updating of terminology and statement names.

2.2 Respondents were asked whether they agreed that no further significant alignment changes were needed to Section 11. Almost 79% of those that provided feedback on the ED2 consultation responded to this question. Of these 92% (34) agreed that no further changes were needed and 8% (3) disagreed. This is summarised in Appendix A (i).

2.3 A number of those that agreed that no further alignment changes were needed to the section also provided comments. The areas raised by more than one respondent (including those that disagreed) concerned:

- Use of the expected credit loss model
- Concessionary loans
- Removal of references to share-based payments
- Additional NPO-specific examples
- Lack of a full review of the section

2.4 In addition, a number of detailed drafting changes were proposed. These are covered in paragraph 2.19 below. Extracts from the feedback are included in Annex B.

2.5 Those respondents that disagreed were primarily concerned that the section as drafted is not tailored to meet the needs of NPOs or were concerned about the use of the expected credit loss model.

2.6 In total, three respondents raised concerns about the ability of NPOs to be able to apply the expected credit loss model, which was a proposed amendment to the *IFRS for SMEs* Accounting Standard following the incorporation of IFRS 9 requirements.

2.7 Respondents to the INPAG consultation were of the view that a simplification is required or more guidance added. The IASB also received feedback expressing concerns with the expected credit loss model in its consultation. As a consequence IASB staff recommended that the incurred loss model is retained and that the expected credit loss model is removed from the Third edition of the *IFRS for SMEs* Accounting Standard. The IASB tentatively decided to withdraw the proposal to include the expected credit loss model in line with staff recommendations.

2.8 With this amendment expected to the draft Third edition of the *IFRS for SMEs* Accounting Standard, the concerns raised by respondents to the INPAG ED2 consultation should be addressed. The Secretariat does not therefore plan to make any changes until it has had the opportunity to review the final draft of the Third edition of the *IFRS for SMEs* Accounting Standard.

2.9 Two respondents raised points about concessionary loans. They noted that concessionary loans are not uncommon for NPOs. As a consequence one respondent was of the view that concessionary loans should be acknowledged in G11.4 (d) as a type of loan. The Secretariat is of the view that this could be added without inferring a more detailed review of the section.

2.10 The other respondent, noting that this section is not prioritised for this INPAG edition, shared a simplification permitted in UK national guidance that allows concessionary loans to be measured at the amount paid or received or fair value. It also provides further guidance on loans between group entities.

2.11 Another simplification was suggested that would allow NPOs that have no external borrowings to use their investing rate when calculating the time value of money.

2.12 The Secretariat does not propose to include either of these simplifications in this edition of INPAG given a full review of the section has not taken place. If progressed such an amendment would in the view of the Secretariat require further consultation through an updated Exposure Draft. However, the Secretariat has drafted additional Implementation Guidance that illustrates factors that an NPO should consider in determining an interest rate for use in calculating the time value of money.

2.13 Two respondents commented on the proposal to remove references to share-based payments from the section. Both respondents supported the proposal, but were of the view that guidance needs to be given about how to deal with the rare occasions when such transactions occur. They were of the view that assistance could be through additional guidance, implementation guidance or cross references to the *IFRS for SMEs* Accounting Standard.

2.14 The idea of relying on the *IFRS for SMEs* Accounting Standard was previously discussed by the TAG and supported. The proposals for the section on share-based payments are considered in TAGFG03-09. The Secretariat is proposing that INPAG requires NPOs to follow the requirements of Section 26 of the *IFRS for SMEs* Accounting Standard if it has share-based payments. If the TAG this proposal, the Secretariat proposes to include a specific reference to the location of guidance of share-based payments in application guidance.

2.15 Two respondents provided comments that related to the examples provided. One respondent was of the view that the examples could be expanded to be more NPO specific. The Secretariat agrees that additional NPO specific examples may be useful. These will be further considered when this section is fully reviewed in subsequent updates to INPAG.

2.16 Another respondent suggested that additional guidance was needed to support NPOs in valuing a beneficial interest (investment) they have in income generating businesses, where the shares are not publicly traded. The Secretariat is of the view that this is not NPO-specific and therefore does not propose at this time to make any amendments.

2.17 Two respondents, who both disagreed that the alignment changes were sufficient, were of the view that the section needs to be fully updated to be better tailored to NPOs, with the language simplified to make it more accessible. As previously noted this section was not prioritised for review in this edition of INPAG and therefore detailed changes have not been made. However, the INPAG Secretariat understands that the IASB is carrying out a plain English review of this section. Any resulting changes will be adopted into INPAG and may go some way to addressing the concerns raised.

Question 1: Do TAG members continue to agree with the general principal that amendments are not made to the text in Section 11 of the *IFRS for SMEs* Accounting Standard for INPAG (including the examples provided) unless they arise as a consequence of the proposals in other Sections or identify a common NPO transaction?

Question 2: Do TAG members agree that with the expected removal of the expected credit loss model from Section 11 of the *IFRS for SMEs* Accounting Standard, no other changes are needed to the impairment of financial assets?

Question 3: Do TAG members agree that concessionary loans are referenced as a common NPO transaction, but that no further amendments are made?

Question 4: Do TAG members agree that if the proposal to remove Section 26 on share-based payments is actioned that references to the guidance to be used for Section 11 transactions is referenced in application guidance?

Question 5: Do TAG members agree that no additional examples should be added other than as set out in 2.12, and also that there is no additional guidance for beneficial interest in entities that are not publicly traded?

2.18 One of the respondents who disagreed suggested that the Section is separated into two separate sections, with the first one for 'cash, bank accounts and straightforward loans and investments' and a separate section for 'other financial instruments'. This is not inconsistent with the structure of Section 11, which is split into basic financial instruments and other financial instrument issues. The Secretariat is open to separating the text into two sections, but would prefer not to amend the titles in advance of a future detailed review.

2.19 A number of drafting changes were suggested as follows:

- Replace debt instruments with loans made to an NPO or loans made by an NPO in order to simplify the language.
- Make reference to financial guarantee contracts in paragraphs G11.9-G11.16

- Replace “is equal to” with “is equal to or has a fixed relationship with” in G11.8(a)(iii). This should make it clear that rates such as SONIA+1/2% are covered.
- Replace “includes observable data” with “includes, but is not limited to, observable data” in G11.26.
- Replace “debtor or creditor” with “debtor, creditor or NPO” in G11.27.
- Replace “shall reverse” with “shall wholly or partially reverse” in G11.30.
- Add cash and cash equivalents as basic financial instruments in G11.7

2.20 The Secretariat proposes not to make any of these suggested changes to the core text. The Secretariat has, however, drafted a small amount of additional application guidance where this does not amend, or potentially amend, the intent of text in the draft Third edition of the *IFRS for SMEs* Accounting Standard. The IASB made tentative decisions about the location of guidance on financial guarantee contracts and as with the expected credit loss model, no changes will be considered until the text of the Third edition of the *IFRS for SMEs* Standard is clear.

2.21 One respondent raised a question about whether there was any indication as to the limit of a change in fair value or cash flow before a hedge is no longer effective (G11.73). The context of this question did not appear to be NPO-specific and therefore the Secretariat does not propose to provide additional guidance.

2.22 In addition one respondent suggested that a comprehensive review of the glossary takes place to ensure that the terms used are reinforced and the relationship with terms in the *IFRS for SMEs* Accounting Standard made clear. The Secretariat agrees that a full review of the glossary is required and this will be carried out when the drafting of all of the sections is complete.

2.23 The Basis for Conclusions has been updated to reflect the feedback received and the Secretariat’s proposed response. Extracts are included in Appendix B. All of the sections that have been updated from the Authoritative Guidance and Basis for Conclusions are in Annex D. It should be noted that the drafting of this section is likely to be significantly impacted by revisions to Section 11 of the draft Third edition of the *IFRS for SMEs* Accounting Standard resulting from tentative decisions made by the IASB.

2.24 A separate annex to the full suite of TAG papers for this meeting, TAGFG03 - Annex contains a track change version of the full Section.

Question 6: What are TAG members' views of the separation of Section 11 into two sections, one for basic financial instruments and one for other financial instruments?
Question 7: Do TAG members agree with the Secretariat's response to the suggested drafting changes?

3. Provisions and contingencies

3.1 A limited number of changes were proposed to Section 21. Terminology was updated to be consistent with the terms and financial statement names in INPAG. Also the reference to obligations arising as a result of a past event was updated to obligations arising as a result of past events in line with the concepts and pervasive principles. The only other change related to the examples to be included in the Implementation Guidance. The example relating to warranties was removed from the Implementation Guidance, with a new example added on onerous contracts.

3.2 Respondents were asked whether they agreed with the proposed changes to the examples. 77% of those that provided feedback on the ED2 consultation responded to this question. Of these 83% (30) agreed with the proposals, 5% (14) disagreed and 3% (1) neither agreed nor disagreed.

3.3 Those that agreed, were of the view that the warranties example was less relevant to NPOs and that onerous contracts were more likely to experienced. However, all of the respondents that disagreed were of the view that the warranties example should be retained as it could be relevant to NPOs that have trading subsidiaries. These respondents all agreed that the new example on onerous contracts was useful and would like to see both included. As there were several respondents requesting the continued inclusion of the example on warranties, the Secretariat proposes to reinstate this example.

3.4 The respondent that neither agreed nor disagreed was unclear on the new example. One of the respondents who disagreed also commented on the new example, questioning whether it is likely to be material in practice. The Secretariat has reviewed the example and proposes to make a number of changes as set out in Appendix E.

3.5 Two respondents noted that text was missing from the second illustrative example. The Secretariat agrees that this is missing, but had moved this text to an expanded explanation of onerous contracts in IG21.1 to IG21.3. As a consequence the Secretariat does not propose to reintroduce the text into the example.

3.6 Appendix C provides an extract of the comments made on provisions and contingencies together with the Secretariat's response.

Question 8: Do TAG members agree with the proposed amendments to the examples, including the reinstatement of the example on warranties?

Question 9: Do TAG members have any comments on the proposed responses to the feedback made on provisions and contingencies?

4. Next steps

4.1 The draft text including the Basis for Conclusions will be updated to reflect TAG member feedback. It will also be updated to reflect any changes to the Third edition of the *IFRS for SMEs* standard which is currently being finalised. It should be noted that the changes to Section 11 are likely to be significant in volume, but not necessarily in nature.

4.2 If these amendments are not substantial in nature and do not raise issues that have previously considered by TAG members, the resulting updated version will be considered the draft final. Even if there are no substantial issues, TAG members will have another opportunity to comment on the drafts of Section 11 and Section 21 when all sections of INPAG have been updated.

September 2024

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Appendix A(i) – Summary of Feedback Responses to SMCs for Section 11 *Financial instruments*

SMC 1(a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.	**Response**	**Number**	**% of those who responded**
	Agree	34	92%
	Disagree	3	8%
	Neither agree nor disagree		
	No Response	10	-
	Totals	47	100%

Annex A(ii) – Summary of Feedback Responses to SMCs for Section 21 *Provisions and contingencies*

SMC 3(a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.	**Response**	**Number**	**% of those who responded**
	Agree	30	83%
	Disagree	5	14%
	Neither agree nor disagree	1	3%
	No Response	11	-
	Totals	47	100%

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Appendix B – Extracts of the main points raised on financial instruments

Comments from those that agreed	
Comment	Response
Drafting amendments, In Section G11.8(a)(iii), I recommend replacing “is equal to” with “is equal to or has a fixed relationship with”. This should make it clear that rates such as SONIA+1/2% are covered. In Section G11.26, I recommend replacing “includes observable data” with “includes, but is not limited to, observable data”. In Section G11.27, I suggest replacing “debtor or creditor” with “debtor, creditor or NPO”. Given the variety of financing mechanisms for the non-profit sector, it is quite possible that the debtor and creditor may be operating in different environments from the NPO. In Section G11.30, I suggest replacing “shall reverse” with shall wholly or partially reverse”. In Section G11.73, is there any indication as to the limit of a change in fair values or cash flows before a hedge is no longer effective? I note that references to share-based payments have been removed and agree they are not expected to be relevant to NPOs. However, it is possible that an NPO could have such payments and I therefore recommend we include a statement that, if share-based payments are made, the relevant provisions of the IFRS for SMEs Accounting Standard shall apply.	These drafting proposals will be discussed with TAG members. There is a risk that detailed drafting changes may infer a more detailed review of this section than has taken place and caution is needed. The Secretariat agrees that a reference to the guidance to be used for share-based payments would be useful if Section 26 is removed as proposed. The Secretariat will consider its location, with appropriate cross references if required.
The alignment changes appear to be suitable. Notwithstanding the difficulty in determining interest rates (especially when recognising financial liabilities) the use of the effective interest rate appears to be a pragmatic solution in the absence of a specified interest rate. However, this section raises two questions: a. Issued financial guarantee contracts (G11.7(e)) are dealt with in subsequent measurement (at G11.17(d)) but G11.7(e) is not specifically referred to in the main paragraphs. I would have expected it to be included in the discussions in G11.9-16. b. It would be helpful if G11.4(d) noted that such loans could be concessionary. Such concessionary loans are not uncommon in the NPO sector. Therefore, NPOs should be encouraged to reflect on whether they have these items or not, as is apparent from the text in G11.6. However, a NPO must read to the detail in G11.16 before being alerted to that fact.	The drafting of financial guarantee contracts will be discussed with TAG members. There is a risk that detailed drafting changes may infer a more detailed review of this section than has taken place and caution is needed. The Secretariat agrees that a reference to concessionary loans should be made in G11.4 (d).

We have not noted any specific alignment changes that may be required to INPAG Section 11. However, we note that in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, there is a permitted exception available to Public Benefit Entities (PBEs) in Section 11. PBEs that make or receive concessionary loans have the option of measuring such loans at either the amount paid or received or at fair value. Further details can be found in paragraphs PBE34.87 to PBE34.97. This includes requirements relating to concessionary loans between entities within a public benefit entity group. We understand that guidance on concessionary loans will not be included in the first edition of INPAG. We suggest you consider it for a future update to INPAG.	The Secretariat agrees that a reference to concessionary loans should be made in G11.4 (d). Providing the simplification for concessionary loans will be discussed with TAG members. While not disagreed with in principle, there is a risk that such drafting changes may infer a more detailed review of this section than has taken place and caution is needed. The Secretariat agrees that it should be considered in a future update to INPAG.
It has been acknowledged in the proposal that some EGA or OFA revenue can be received over multiple years. In such scenarios, the time value of money should be considered in accordance with section 11, requiring the present value of the grant revenue to be calculated using a market rate of interest on a similar instrument. Many NPOs fund themselves through grant and donation income and do not take on external debt, and so determining a market rate of interest for them can be difficult. We suggest that a simplified method where a NPO does not have external borrowings be included, allowing such present values or other balances requiring discounting to be discounted at their investing rate instead. Also, no simplifications to the expected credit loss calculations have been proposed. Accrued EGA and OFA revenue meet the definition of a financial instrument and so would therefore be subject to expected credit loss calculations. However, given the nature of the revenue, it is highly unlikely for there to be any risk of default on such balances. Therefore, we recommend simplifications are included in relation to these balances to prevent undue effort by users of INPAG.	The Secretariat proposes to add application guidance that permits an investing rate to be used where an NPO has no external borrowings. The IASB have made a tentative decision to remove the expected credit loss model from the Third edition of the *IFRS for SMEs* Accounting Standard. Updates will be made, and the implications considered when this has been finalised.
In paragraph G.11.7, you can considerer add “cash and cash equivalents” as basic financial instrument. Include identification of cooperating sources within cash and cash equivalents.	This drafting proposal will be discussed with TAG members. There is a risk that detailed drafting changes may infer a more detailed review of this section than has taken place and caution is needed.
Majority of participants agree. Those who disagreed suggested more detailed guidance regarding the valuation of certain financial instruments, such as investments of NPOs in Income Generating	The Secretariat agrees that this may be a common circumstance for NPOs. Additional implementation

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Activity businesses. These businesses have shares that are not publicly traded, and there are no other means available to measure the value of these assets.	guidance is proposed to set out the factors to be considered.
The decision to remove references to share-based payments …. may streamline reporting requirements for many NPOs, it necessitates careful consideration of how such transactions, albeit rare, would be accounted for should they arise within the NPO sector. Guidance, potentially within a supplementary section or an expanded implementation guidance document, would be instrumental in bridging this gap, ensuring NPOs are equipped to report such transactions transparently and consistently. ….. it is imperative that examples are not only illustrative of the principles outlined in Section 11 but also reflective of the breadth of scenarios NPOs may encounter. This ensures that the guidance remains a robust resource capable of facilitating accurate and consistent application across varied and evolving financial landscapes. Adjustments in terminology, specifically the transition to terms that resonate more directly with the NPO sector, are commendable for enhancing the accessibility and applicability of the standard. This shift, however, introduces a critical need for clarity to prevent potential ambiguities that might arise from the departure from the more universally recognized IFRS lexicon. To this end, a comprehensive glossary or a detailed cross-referencing system could serve as a valuable tools for entities navigating between these standards, ensuring the continuity of understanding and consistency in application.	The Secretariat agrees that a reference to the guidance to be used for share-based payments would be useful if Section 26 is removed as proposed. The Secretariat will consider its location, with appropriate cross references if required. The Secretariat agrees that additional NPO specific examples may be useful. These will be further considered when this section is fully reviewed in subsequent updates to INPAG. In developing INPAG an existing term in the *IFRS for SMEs* Accounting Standard is used in the same way. The Secretariat will carry out a full review of the glossary once all sections have been updated to ensure that key terms are along with the relationship to terms in the *IFRS for SMEs* Accounting Standard where needed.
Yes I agree. However, I think impairment and specially Measurement of expected credit losses could need some clarification	The IASB have made a tentative decision to remove the expected credit loss model from the Third edition of the *IFRS for SMEs* Accounting Standard. Updates will be made, and the implications considered when this has been finalised.
Comments from those that disagreed	
ED10 – Given the fact that the ultimate intention of the project is to have guidance that is simple to use, mirroring material from the IFRS for SMEs introduces a risk of including content within the INPAG that is unlikely to be applied to NPOs. Failure to modify the IFRS for SMEs and tailor it, perhaps with examples or illustrations	This section was not prioritised for review in this edition of INPAG and therefore more detailed changes have not been made.

akin to the NPO sector means there will be demand for a fair degree of accountancy skill in comprehending the text and requirements.	The IASB is carrying out a plain English review of this section and this will be adopted into INPAG.
ED30 – I feel strongly that INPAG must be accessible to anyone working in a financial role with an NPO…… I do not feel is it reasonable to use language that only makes proper sense to fully qualified accountants…. I think it might be better to separate section 11 of INPAG into two separate sections, one dealing with basic financial instruments – under a much simpler heading such as "Cash, Bank Accounts and Straightforward Loans and Investments" – but with vastly simplified language. A separate section, preferably towards the end of INPAG could then be provided to deal with "Other financial instruments" (with a cross-ref from this section, explaining briefly what sort of instruments would be outside the initial section). However, so long as INPAG explains in general terms what sort of things would be classed as complex financial instruments, the details could be covered by a cross-ref to the IFRS for SMEs. (See my comments on question 4(k).) But even within the section on basic instruments (Part I of the section), please get rid of terms like "debt instrument" and "amortised cost". Much better use terms like "loans made to the NPO" and "loans made by an NPO to others" The main "alignment change" needed here is not so much a change in rules of recognition etc, but a change of language……..	This section was not prioritised for review in this edition of INPAG and therefore more detailed changes have not been made. The IASB is carrying out a plain English review of this section and this will be adopted into INPAG. The drafting proposals will be discussed with TAG members. There is a risk that detailed drafting changes may infer a more detailed review of this section than has taken place and caution is needed.
ED31 – We strongly believe that Expected Credit Loss required by INPAG (G11.32) would be too difficult for NPO in Indonesia. We suggest that the impairment method should follow IAS 39 the incurred credit loss model without consideration of the future economic outlook. NPO in Indonesia would not have capabilities to provide sophisticated ECL model and its cost may outweigh the benefit. Many NPO in Indonesia operates under Islamic/shari'ah law, for example is charity organization. They may have financial assets (debt instruments) which fall under category of amortised cost. The concept of time value of money in calculating ECL may not be suitable for Islamic principles. We suggest that there is a sentence in INPAG mentioning about financial instruments under shariah law, should follow local standard requirements or AAOIFI standards.	The IASB have made a tentative decision to remove the expected credit loss model from the Third edition of the *IFRS for SMEs* Accounting Standard. Updates will be made, and the implications considered when this has been finalised. The requirement to follow local law is threaded through INPAG. This intention is made clear in BC P.34

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Appendix C – Extracts from the main comments on provisions and contingencies

Comment	Response
There is an example for onerous contract in the implementation guidance and as per the illustrative example NPO`s shall recognize and measure present obligation as provision but there should be clear guideline on grant contract or arrangements about the settlement procedure of provision arises and recognize in the financial statements of NPOs	The Secretariat proposes to review the example on onerous contracts.
Yes, in principle. It is certainly right to make the examples relevant to NPOs. But as commented above, it is essential to merge the Implementation Guidance with the substantive provisions, and to simplify the language	Per responses to similar points the Secretariat proposes to keep separate authoritative and non-authoritative guidance to mitigate against any confusion between the two.
We agree with the decision to replace the example on warranties with one on onerous contracts in the Implementation Guidance. Focusing on onerous contracts makes the guidance more useful for the specific situations NPOs often face	Noted
Disagree Keep the warranties and also introduce a new example on onerous contracts because both scenarios can arise	The Secretariat proposes to reinstate the example on warranties
Retaining the warranty example would not be unreasonable and may continue being illustrated in addition to the example/s on onerous contracts	The Secretariat proposes to reinstate the example on warranties
We disagree with removing the warranty example. We think that retaining a warranty example could be useful, especially because proposed Section 23 directs an NPO to account for a warranty in accordance with Section 21 in some circumstances. We think that a warranty example might be particularly relevant for trading subsidiaries of NPO groups. We agree with the addition of a new example on onerous grant agreements. However, we	The Secretariat proposes to reinstate the example on warranties and review the example on onerous contracts.

are unsure whether the situation outlined in Illustrative Example 3 is likely to be material to a given contract in practice.	
I found the new Example 3 (onerous contracts with FX grant) confusing. It seemed to require consideration of future grant receipts (FX) and future payments (local currency) though this was not clear.	The Secretariat proposes to review the example on onerous contracts.

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Appendix D Financial instruments - extracts

Application Guidance – Section 11 Financial Instruments
Scope (share-based payments)

AG11.1 NPOs are not expected to have equity claims that are traded for their commercial value. As a consequence, share-based payments are not expected to be relevant. In the rare circumstances that an NPO has a financial instrument, contract or obligation that is a share-based payment, NPOs shall follow the requirements of Section 26 *Shared-based payments* in the Third edition of the *IFRS for SMEs* Accounting Standard.

AG11.2 Should the guidance in AG11.1 not address a specific transaction, in line with GP.26 guidance should be sought initially from other IFRS accounting standards, before considering IPSAS and then guidance issued by national standard setters.

Basic financial instruments

AG11.3 Section 11 refers to debt instruments. Debt instruments are used to raise funds and contain a contract that specifies the terms for repaying the amount provided. They include credit cards, loans, bonds and debt securities. Debt instruments for many NPOs will comprise loans made to or by an NPO.

AG11.4 G11.7 includes cash as a basic financial instrument. As per the examples in G11.4, for the purposes of this section, cash also includes **cash equivalents**.

Comparison of Section 11 with the *IFRS for SMEs* Accounting Standard

Section 11 of INPAG has been drawn from Section 11 of the *IFRS for SMEs* Accounting Standard, with changes only to terminology and to align with the statements required by INPAG. The main differences between Section 11 of the draft Third edition of the *IFRS for SMEs* Accounting Standard and Section 11 of INPAG are as follows:

- Any references to share-based payments have been removed from this section, as it is proposed that a section on share-based payments is not included in INPAG.
- A reference to concessionary loans has been added to the examples of basic financial instruments, to make clear that they are included within the scope of basic financial instruments.
- INPAG Section 11 uses different terminology, referring specifically to NPOs rather than entities more generally, to equity claims rather than equity and to other sections of INPAG rather than the *IFRS for SMEs* Accounting Standard.

- The examples provided in Section 11 of the draft Third edition of the *IFRS for SMEs* Accounting Standard have been relocated to the INPAG Implementation Guidance. Examples of monetary assets and liabilities arising from enforceable ~~binding~~ grant ~~arrangements~~ agreements have been added.

Basis for Conclusions

Section 11 – Financial instruments

Scope

BC11.5 To retain consistency with other INPAG sections references to share based payments were proposed to be removed from this Section. Respondents to the Exposure Draft agreed that it was appropriate to remove these references. However, they were concerned that in order to support consistency, guidance would be available in the rare situations where such transactions existed. As a result, application guidance has been added that directs INPAG users to the Third edition of the *IFRS for SMEs* Accounting Standard and more generally to the use of other guidance in GP26.

Basic financial instruments

BC11.6 Consideration was given to whether additional guidance on grant prepayment assets and grant payment liabilities as defined in Section 24 Part I *Expenses on grants and donations* was needed in this Section. The TAG was of the view that the guidance in Section 11 was sufficient. Its advice was to keep any necessary additional guidance within Section 24 Part I.

BC11.7 Feedback from respondents to the Exposure Draft highlighted concerns about whether the requirements and the language of this section were too complex for NPOs. Specifically there were concerns about the use of the expected credit loss model. Since the Exposure Draft was published the IASB [decided[1] to withdraw the expected credit loss model from the Third edition of the *IFRS for SMEs* Accounting Standard and to simplify the requirements related to financial guarantee contracts]. These changes are expected to simplify the requirements.

BC11.8 In addition the IASB are carrying out a language review of this section, which should also serve to simplify the language. As this section was not prioritised for full review in this edition of INPAG, the Secretariat does not propose to make further changes, as to

[1] A place holder based on the tentative decision as at 19 September 2024

do so might infer a level of review that has not been carried out. Additional guidance to clarify the application to NPOs has been included as application guidance.

BC11.9 In accordance with this principle suggested detailed drafting changes have not been taken on board. The feedback will be retained for consideration when a full review of this section takes place as part of future updates to INPAG. This includes suggestions of simplifications in relation to concessionary loans, the interest rate to be used in calculating the time value of money and the provision of additional NPO-specific examples.

Appendix E – Provisions and contingencies updated illustrative example for onerous grant arrangements

Example 3 Onerous grant agreement

An NPO is required under a grant agreement to construct ten new community facilities for local communities in a designated jurisdiction. This agreement resulted in a present obligation for the grant recipient to build the facilities to be entitled to the grant. The funds for the construction costs are provided by the grantor using the exchange rate at the date that the agreement was signed. The exchange rate changed between the date of signing the agreement and the date of commencement of the construction work. The amount provided is 20% lower than the NPO expected to receive in local currency. The amount in the local currency is no longer sufficient to cover the costs of construction.

There is a present obligation as a result of past events – the NPO is required by the grant agreement to pay out resources for which it will not receive commensurate benefits.

Conclusion –The grant agreement is onerous, as the NPO's unavoidable present obligation to construct the new community facilities now exceeds the revenue that the NPO will receive under the grant agreement, and this loss was not anticipated when the NPO entered into the grant agreement. The NPO recognises a separate provision and an expense, measured as the difference between the present obligation to construct the community facilities and its right to revenue.