INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGFG03-12
26-27 September 2024 – Hybrid

Final Guidance - Section 31 (Hyperinflation) and Section 32 (Events after the end of the reporting period)

Summary	This paper provides TAG members with an analysis of the feedback on the draft text for Section 31 *Hyperinflation*, and Section 32 *Events after the end of the reporting period.*
Purpose/Objective of the paper	This paper includes the main issues raised by in feedback by those that responded to Section 31 and Section 32. 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	None
Prepared by	Nandita Hume
Actions for this meeting	**Comment and advise** on: • the proposal for no further changes to Section 31 and • a minor amendment to Section 32 to reflect grant arrangements concluded after the end of the reporting period as an example of a non-adjusting event.

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group

Final Guidance - Section 31 (Hyperinflation) and Section 32 (Events after the end of the reporting period)

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 to for consequential changes arising from changes to other sections including the alignment of terminology. This approach was reflected in the updates made to Section 31 *Hyperinflation* and Section 32 *Events after the end of the reporting period.*

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. 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. All INPAG sections will be updated to reflect the finalised text in early 2025.

2. Hyperinflation

2.1 No major editorial changes were proposed for hyperinflation, with minor changes to terminology and to align with other Sections in Exposure Draft 2. The main changes are to reflect the structure of the balance sheet proposed for NPOs in INPAG and the names and scope of the financial statements as they relate to income and expenses.

2.2 Respondents were asked whether they agreed that no further significant alignment changes were needed to Section 31. Sixty percent of those who provided feedback on ED2 responded to this question. Of those respondents, 96% (27 people) agreed that no further changes were needed, while 4% (1 person) neither agreed nor disagreed. This is summarised in Appendix A (i).

2.3 The respondent who neither agreed nor disagreed raised a point about disclosure requirements. They were of the view that Section 31 does not mention how information should be handled in the notes to the financial statements or whether disclosures are needed when sufficient data on devaluation rates or economic decline is not available. The Secretariat believes that G31.15 specifically addresses these concerns.

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

2.4 As a consequence, based on the feedback received the Secretariat does not propose to make any further edits to the text on hyperinflation.

Question 1: Do TAG members agree that no further amendments are required to the text on hyperinflation?

3. Events after the end of the reporting period

3.1 Other than terminology, changes to Section 32 reflect alignment with other INPAG Sections. Key changes to note are:

- the sources of bankruptcy have been expanded to include 'grant provider'. This reflects the importance of grant providers to the business model for an NPO and that the bankruptcy of a grant provide could have flow on effects for an NPO;
- 'trade' has been deleted against 'trade receivable' consistent with Section 4.
- references to profit sharing have been removed consistent with the amendments made to Section 28.
- references to dividends as this is not expected to be a feature of NPOs who are not operating for returns. Amendments to the draft text allow for the possibility of an NPO making a distribution to holders of equity claims. This is expected to be extremely rare.
- an amendment has been made to reflect that it is not an entity's owners that have the power to amend the financial statements after issue, but there may be 'others' who have this type of power. This is to reflect that ownership is not a key driver of how an NPO operates.

3.2 Respondents were asked whether they agreed that no further significant alignment changes were needed to Section 32. 64% of those that provided feedback on ED2 responded to this question. Of these 83% (25) agreed with the proposal and 13% (4) disagreed and 3% (1) neither agreed nor disagreed.

3.3 Three respondents that disagreed expressed the view that the reference to distribution to holders of equity claims should be removed from the section, as it is not relevant to NPOs. When ED2 was issued, there had not been an opportunity to review the responses to ED1 on equity. Since ED2 was issued, proposals related to equity were updated in ED3. We will consider this point further once we have seen the responses to ED3. Given that the Secretariat acknowledges the existence of equity claims, even though this is expected to be uncommon, it seems appropriate to retain this reference.

3.4 One respondent requested guidance or an example to be included that highlights the disclosure of post-reporting period grant agreements as non-adjusting events. The Secretariat acknowledges that including significant new grant agreements as an example of a non-adjusting event in Section 32 would be useful. However, the Secretariat does not propose to add an illustrative example to the Implementation Guidance at this time. This is on that basis that this was not a priority section, is not as significant as other issues and that the inclusion of an example on its may infer a more in-depth review.

3.5 The respondent who neither agreed not disagreed raised a question about the criteria for adjustments after the accounts are certified and audited. The Secretariat's view is that once financial statements have been certified and audited, management is not permitted to change the figures. The integrity and reliability of audited financial statements are crucial, and any modifications after certification would undermine both the audit process and the accuracy of financial reporting. Therefore, establishing criteria for such changes is not supported.

Question 2: Do TAG members agree that the reference to distributions to holders of equity claims should be retained in the section, to account for the rare circumstances where it may be relevant to an NPO?

Question 3: Do TAG members agree with the inclusion of significant new grant agreements as non-adjusting events, but that no illustrative examples should be added to the Implementation Guidance?

Question 4: Subject to the feedback on questions 2 and 3, do TAG members agree that no further amendments are needed to Section 32 including no need to clarify that the account cannot be amended after they have been signed and the audit opinion given?

4. Next steps

4.1 The draft text including the Basis for Conclusions has been updated to reflect TAG member feedback (see extracts in Appendix D). The text will be updated to reflect any changes to the Third edition of the *IFRS for SMEs* standard which is currently being finalised. The full draft text can be found in TAGFG03-Annex.

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 31 and Section 32 when all sections of INPAG have been updated.

September 2024

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Appendix A(i) – Summary of Feedback Responses to SMCs for Section 31 *Hyperinflation*

SMC 11(a) Do you agree that there are no significant alignment changes required to Section 31 other than the terminology changes that have already been made. If not describe any further alignment changes required.	Response	Number	% of those who responded (total 69)
	Agree	27	92%
	Disagree	0	-
	Neither agree nor disagree	1	4%
	No Response	19	-
	Totals	47	100%

Appendix A(ii) – Summary of Feedback Responses to SMCs for Section 32 *Events after the end of the reporting period*

SMC 12(a) Do you agree that there are no significant changes required to Section 32 other than those that have already been made for alignment purposes. If not describe any further alignment changes required.	Response	Number	% of those who responded (total 69)
	Agree	25	83%
	Disagree	4	13%
	Neither agree nor disagree	1	3%
	No Response	17	-
	Totals	47	100%

Appendix B – Extracts of the main points raised on Hyperinflation.

Comments from those that agreed	Response
We do agree with the proposal – we believe this section ONLY required terminology adjustments.	The Secretariat notes this comment
We agree with the proposal. However, we consider it prudent to maintain a review of its application according to the degrees of inflation that may occur in the jurisdictions where a non-profit entity is operating.	The Secretariat notes this comment
We agree that the primary changes made to Section 31, focusing on terminology adjustments to cater specifically to Non-Profit Organizations (NPOs), adequately align it with the IFRS for SMEs Accounting Standard's principles on hyperinflation. The modifications seem to sufficiently address the distinct nature of NPO operations and reporting requirements without necessitating significant additional alignment beyond these terminological updates.	The Secretariat notes this comment
Don't feel qualified to respond in particular to those that are experiencing hyper inflation but can see that this section becomes subjective and up to the entity. We welcome the more relevant terminology.	The Secretariat notes this comment.
We agree with the Exposure Draft and deem it crucial for NPOs that applying this Section evaluate qualitative indicators and not only quantitative indicators when the economy is experiencing high inflation.	The Secretariat notes this comment.
Comments from those that neither agreed nor disagreed	
Based on section 31, what is important, apart from the estimates on hyperinflation, is that there is no mention of how the information will be handled in the notes to the financial statements, or whether they will continue to be mentioned when sufficient information is not established by whoever is generating high levels of devaluation rates with respect to another currency or the country is economically depreciating.	The Secretariat is of the view that G31.15 specifically addresses these concerns. This paragraph requires that an NPO to shall disclose the following: (a) the fact that financial statements and other prior period data have been restated for changes in the general purchasing power of the functional currency; (b) the identity and level of the price index at the reporting date and changes during the current reporting period and the previous reporting period; and (c) amount of gain or loss on monetary items.

Appendix C – Extracts from the main comments on Events after the end of the reporting period

Comments from those that agreed	Response
We agree to the changes that seek to include grant providers as a source of bankruptcy, to remove reference to profit sharing and dividends, and the widening of those with the power to amend the financial statements after they have been issued given the nature of NPOs.	The Secretariat notes these comments
Comments from those that disagreed	
I think paragraph G32.8 Distributions should be removed as there are no distributions for NPOs.	In rare cases, NPOs may make distributions to holders of equity claims. On balance the Secretariat proposes to retain the guidance on distributions as the extent of equity claims is as yet not well understood.
No Section 32.8 refers to distributions to holders of equity claims. We question why this is necessary given the removal of IFRS for SMEs section 26 on share-based payments from INPAG.	See comment above
Considering the nature of NPOs, it will be informative and beneficial for users of information and financial statements to have information about significant new grant agreements concluded after the reporting period. To add example of this as significant non-adjusting event in article G32.7. and G32.11	The Secretariat agrees that it is useful to add significant new grant agreements as a non-adjusting event given their importance to NPOs. The Secretariat does not propose to include an illustrative example as this amendment is not significant and this section has not been subject to detailed review.
Not agree. Dividend distribution should not happen in an OBL so this section should be corrected	See earlier response
Comments from those that neither agreed nor disagreed	
Establish criteria when management changes the figures in the financial statements after they have been certified and audited	Once financial statements have been certified and audited, management is not permitted to change the figures. The integrity and reliability of audited financial statements are crucial, and any modifications after certification would undermine the audit process and the accuracy of financial reporting. Therefore, establishing criteria for such changes is not supported.

Appendix D – Extracts to highlight amendments

Authoritative Guidance

Section 32 – Events after the end of the reporting period

Non-adjusting events after the end of the reporting period

…….

G32.7 Examples of non-adjusting events after the end of the reporting period include:

(a) a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Consequently, an NPO does not adjust the amounts recognised in its financial statements for the investments. Similarly, the NPO does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure in accordance with paragraph G32.10.

(b) an amount that becomes receivable as a result of a favourable judgement or settlement of a court case after the reporting date but before the financial statements are authorised for issue. This would be a contingent asset at the reporting date (see paragraph G21.14) and disclosure may be required by paragraph G21.17. However, agreement on the amount of damages for a judgment that was reached before the reporting date but was not previously recognised because the amount could not be measured reliably may constitute an adjusting event.

(c) significant new grant agreements concluded after the end of the reporting period. If an NPO enters into a significant new grant agreement after the reporting period but before the financial statements are authorised for issue, this event does not typically relate to the conditions existing at the end of the reporting period. As such, the NPO does not adjust the amounts recognised in its financial statements for the reporting period. However, because the grant agreement may have a significant impact on the NPO's future financial performance or operations, disclosure of the nature and financial impact of the new grant agreement may be required in accordance with paragraph G32.10, to ensure users of the financial statements are informed of material events occurring after the reporting period.

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Disclosure

....

Non-adjusting events after the end of the reporting period

......

G32.11 The following are examples of non-adjusting events after the end of the reporting period that would generally result in disclosure; the disclosures will reflect information that becomes known after the end of the reporting period but before the financial statements are authorised for issue:

(a) a major business combination or disposal of a major controlled entity;
(b) announcement of a plan to discontinue an operation;
(c) major purchases of assets, disposals or plans to dispose of assets, or expropriation of major assets by government;
(d) the destruction of a major production plant by a fire;
(e) announcement, or commencement of the implementation, of a major restructuring;
(f) issues or repurchases of an NPO's debt or equity claims;
(g) abnormally large changes in asset prices or foreign exchange rates;
(h) changes in tax rates or tax laws enacted or announced that have a significant effect on current and deferred tax assets and liabilities;
(i) entering into significant commitments or contingent liabilities – for example, by issuing significant guarantees;
(j) commencement of major litigation arising solely out of events that occurred after the end of the reporting period; and
(k) significant new grant agreements concluded after the end of the reporting period.

Basis for Conclusions

Section 32 – Events after the end of the reporting period

....

BC32.2 There were no significant issues arising from the high-level review of this Section. Other than terminology, changes reflect alignment with other INPAG Sections. Key changes to note are:

(a) the sources of bankruptcy have been expanded to include 'grant provider'. This reflects the importance of grant providers to an NPO and that the bankruptcy of a grant provider could have flow- on effects for an NPO;

(b) 'trade' has been deleted against 'trade receivable' consistent with Section 4;

(c) references to profit sharing have been removed consistent with the amendments made to Section 28;

(d) references to dividends have been removed as this is not expected to be a feature of NPOs who do not operate for returns. Amendments to the draft text allow for the possibility of an NPO making a distribution to holders of equity claims. This is expected to be extremely rare and will be reviewed to take account of feedback on equity as requested as part of Exposure Draft 1 (ED1);

(e) an amendment has been made to reflect that it is not an entity's owners that has the power to amend the financial statements after issue, but there may be 'others' who have this type of power. This is to reflect that ownership is not a key driver of how an NPO operates; and

(f) significant grant agreements concluded after the end of the reporting period have been added as a non-adjusting event following feedback from respondents to ED2. This reflects the importance of grant arrangements to NPOs and the potential impact on an NPO's future operations.