



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG03-13

26-27 September 2024 – Hybrid meeting

## Consolidated and separate financial statements

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|--------------------------------|--|
| Summary                        | This paper presents the proposed updated text for Section 9, <i>Consolidated and separate financial statements</i>   |
| Purpose/Objective of the paper | The paper seeks TAG members views on the Secretariat's proposals for finalising Section 9 of INPAG, and comments of the proposed revisions to the drafting of the Guidance, Illustrative Examples and Basis for Conclusions.   |
| Other supporting items         | <a href="#">TAG Agenda Item TAGFG02-04 Way Forward on Financial Statements</a>   |
| Prepared by                    | Paul Mason   |
| Actions for this meeting       | <b><u>Comment and advise</u></b> on: <ul style="list-style-type: none"><li>• The Secretariat's proposals for finalising Section 9 of INPAG;</li><li>• The proposed guidance in respect of the rebuttable presumption;</li><li>• The proposed definition of a controlling entity;</li><li>• The proposed additional Illustrative Examples; and</li><li>• The proposed revisions to the Basis for Conclusions.</li></ul> |



# Technical Advisory Group

## Consolidated and separate financial statements

### 1. Introduction

- 1.1 At its July 2024 meeting, the TAG considered the responses to the financial statements sections of ED 1. Further development of most of these sections will be brought to future TAG meetings following the review of the responses to the illustrative financial statements in ED 3.
- 1.2 However, Section 9 *Consolidated and separate financial statements* is not impacted by future responses to the illustrative financial statements. Consequently, this paper proposes drafting changes to Section 9.
- 1.3 At the July 2024 meeting, the Secretariat presented the responses to the financial statement sections of ED 1 and proposed the way forward. This analysis is not repeated in this paper, but can be found in the [July meeting papers](#).
- 1.4 The TAG generally agreed with the way forward proposed by the Secretariat, although the Secretariat acknowledges that the time available to discuss this issue was limited. This paper takes forward the following proposals discussed in July 2024:
  - No changes to the mandatory requirements in relation to the control principles are proposed. Additional illustrative examples suggested by respondents have been included to address some areas of concern to NPOs.
  - The rebuttable presumption has been retained, pending the finalisation of the equivalent wording in the new edition of the IFRS for SMEs Accounting Standard.
  - The application of the consolidation requirements to controlled for-profit entities has been retained.
  - Guidance on the qualitative characteristics of faithful representation and relevancy (included in ED 1) has been retained.
  - No changes to the terminology “controlling entity”, “controlled entity” and “beneficial interest” have been made.
- 1.5 The full text of the revised Section 9 is included in TAGFG03 – Annex. Additional information is provided in Annexes A and B.



## 2. Relocation of Application Guidance paragraphs

- 2.1 ED 1 included a separate Application Guidance section. Respondents have indicated that separating the mandatory requirements into two sections is confusing.
- 2.2 The TAG considered the structure of INPAG at its July 2024 meeting. In line with the discussions at that meeting, the Secretariat has reviewed the Application Guidance (AG), and considers that the material is best located in the authoritative guidance. This is because the AG sets out requirements for applying the principles that are set out in the authoritative requirements; it would, therefore, not be appropriate to include the AG in non-authoritative Implementation Guidance. Consequently, the core text and Application Guidance sections have been merged.
- 2.3 [Annex A](#) includes a table that shows how the Application Guidance paragraphs have been integrated into the authoritative requirements.

**Question 1:** The TAG is asked whether it has any comments on the integration of the Application Guidance into the authoritative requirements?

## 3. Control principles

- 3.1 Respondents to ED 1 generally agreed that the additional guidance on the control principles was appropriate and sufficient. As discussed at the TAG's July 2024 meeting, the Secretariat is not proposing any amendments to this guidance.
- 3.2 A number of respondents also indicated that additional examples would help NPOs assess control, taking into account the unique features affecting NPOs. The Secretariat has reviewed the suggestions for additional examples, and has added three further Illustrative Examples. The text of these additional examples is provided in [Annex B](#).

**Question 2:** Do TAG members agree that no changes are required in respect of the control principles?

**Question 3:** Do TAG members support the inclusion of the additional Illustrative Examples?



#### 4. Rebuttable presumption

- 4.1 ED 1 included a rebuttable presumption that “control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity.”
- 4.2 Respondents supported the inclusion of the presumption. However, some respondents considered the drafting required clarification, as INPAG considers a wider range of factors than voting rights. In particular, respondents questioned whether NPOs would have to assess all the elements of control if they were relying on the presumption.
- 4.3 The IASB is reviewing the wording of the presumption as it finalises the *IFRS for SMEs* Accounting Standard. The Secretariat propose that the wording of the presumption in INPAG is reviewed once the IASB wording is finalised, and respondents comments considered at that point.
- 4.4 However, the Secretariat agrees that clarification that an NPO relying on the presumption does not have to assess the other elements of control would be helpful. Subject to further revisions once the IASB has finalised the wording in the Third edition of the *IFRS for SMEs* Accounting Standard, the Secretariat propose the following amendment to the relevant paragraph in INPAG:

G9.31 Control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity. That presumption may be overcome if it can be clearly demonstrated that the NPO does not have one or more of the elements of control listed in paragraph G9.10. An NPO that relies on the presumption is not required to assess the elements of control.

G9.31~~G9.32~~ Control will exist if voting rights are held, not as a result of ownership, but because of a governance arrangement established to deliver an NPO’s objectives or purposes. Control also exists when the NPO holds half or less of the voting power of an entity but it has:

- (a) power over more than half of the voting rights by virtue of an agreement with other investors;
- (b) power to govern the financial and operating policies of the entity under a statute, as a consequence of a **contract** or other agreement;
- (c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body where control of the entity is exercised by that board or body; or



(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

**Question 4:** Do TAG members support the proposed drafting amendment in respect of the rebuttable presumption?

## 5. Application of the consolidation requirements to controlled for-profit entities

- 5.1 A number of respondents are of the view that for-profit entities should not be included in the NPO consolidated financial statements. The TAG has previously discussed whether there should be any exemptions based on dissimilar activities, and concluded that no exemptions are required.
- 5.2 Consolidation is not a topic being prioritised for the first edition of INPAG, and the Secretariat's view at the time of drafting ED 1 was to not depart from the *IFRS for SMEs* Accounting Standard. The Secretariat retains this view.
- 5.3 The Secretariat also notes that where NPOs have concerns that including for-profit entities in the consolidated financial statements might obscure the mission of the NPO, INPAG permits the presentation of separate financial statements, which is likely to address this concern.

**Question 5:** Do TAG members agree that no changes are required in respect of the consolidation of for-profit entities?

## 6. Qualitative characteristics of faithful representation and relevancy

- 6.1 ED 1 included Application Guidance on the qualitative characteristics of faithful representation and relevancy. Respondents generally considered the guidance was sufficient and appropriate.
- 6.2 One respondent considered that guidance on the fundamental characteristics was unnecessary and could be replaced by a cross-reference to Section 2. The Secretariat has reviewed the guidance (now included in paragraphs G9.38–G9.41 following the restructuring of INPAG) and have concluded that having the guidance in the same location as the rest of the text on consolidation will be helpful to users of INPAG.
- 6.3 Consequently, no changes to the text are proposed at this stage. Section 2 will be reviewed in the light of any changes made to the equivalent section in the *IFRS for SMEs* Accounting Standard by the IASB as they finalise the Standard. The Secretariat



will review the text in Section 9 at this stage to ensure consistency between the sections is maintained.

**Question 6:** Do TAG members agree that no changes are required in respect of the qualitative characteristics?

## 7. Terminology

- 7.1 ED 1 adopted the terms 'controlling entity', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'. Respondents generally supported the new terminology, and the Secretariat is proposing that this terminology be retained.
- 7.2 Respondents identified some inconsistencies with the terminology used in Section 9, highlighting a number of instances where the *IFRS for SMEs* Accounting Standard terminology had been retained. The Secretariat has reviewed the wording of Section 9 and updated the terminology used where required. These amendments are shown in mark-up in the full text of the revised Section 9 (included in TAGFG03 - Annex).
- 7.3 It is possible that an NPO is controlled by another entity. In ED 1, the entity controlling the NPO was referred to as the parent. Given the intention not to use the terminology used in the *IFRS for SMEs* Accounting Standard, the Secretariat has replaced parent with controlling entity, and included the following definition in the Glossary.

Controlling entity: The entity that has control of the reporting NPO as a result of the application of the principles of control.

**Question 7:** Do TAG members agree with the retention of the terms 'controlling entity', 'controlled entity' and 'beneficial interest'?

**Question 8:** Do TAG members agree with the definition of controlling entity?

## 8. Basis for Conclusions

- 8.1 The Basis for Conclusions has been updated to cover issues raised in the responses to ED 1 and to explain the rationale for the amendments proposed above. A mark-up version of the revised text of the Basis for Conclusions is provided in [Annex C](#). This can also be found in the full text of the updated INPAG Basis for Conclusions (included in TAGFG03 - Annex).



**Question 9:** Do TAG members have any comments on the revised Basis for Conclusions?

## 9. Next steps

- 9.1 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* Accounting Standard which is currently being finalised.
- 9.2 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 draft of Section 9 when all sections of INPAG have been updated.

September 2024

## Annex A – Relocation of Application Guidance

*This table sets out how the Application Guidance paragraphs in ED 1 have been relocated to the mandatory requirements.*

| Paragraph (ED 1) | Paragraph (FG)      | Rationale and amendments to paragraph   |
|------------------|---------------------|---|
| AG9.1            | G9.2                | Paragraph sets the scene for why NPOs need to prepare consolidated financial statements.  |
| AG9.2            | G9.11               | Provides additional guidance on the link between power, variable rights and ability to use power to affect the variable rights. The first two sentences have been deleted as these repeated the mandatory requirements to provide context for the AGs.  |
| AG9.3            | N/a                 | Deleted as this paragraph repeated the mandatory requirements to provide context for the AGs.   |
| AG9.4            | G9.15               | These paragraphs explain how the principles relating to power apply to situations that may arise in NPOs, and provides guidance on how to assess power in those situations.   |
| AG9.5            | G9.16               |   |
| AG9.6            | G9.18               |   |
| AG9.7            | G9.21               |   |
| AG9.8            | G9.22               | These paragraphs explain how variable returns apply to NPOs, particularly where the variable returns are not financial. Paragraph G24 has been reworded to better fit the style of the mandatory Guidance.  |
| AG9.9            | G9.23               |   |
| AG9.10           | G9.24               |   |
| AG9.11           | G9.26               |   |
| AG9.12           | G9.27               | These paragraphs explain how to assess whether power can be used to affect variable returns, particularly non-financial returns. The first two sentences have been deleted as these repeated the mandatory requirements to provide context. Superfluous text has been removed from paragraph G27. |
| AG9.13           | G9.28               |   |
| AG9.14           | G9.29               |   |
| AG9.15           | G9.36               |   |
| AG9.16           | Inserted into G9.37 | These paragraphs expand on the mandatory requirements for consolidating entity with dissimilar objectives.  |
| AG9.17           | G9.38               | Deleted as this paragraph repeated the mandatory requirements to provide context for the AGs.   |
| AG9.18           | G9.38               | The mandatory guidance requires an NPO to consider the fundamental characteristics of faithful  |
| AG9.19           | G9.39               |   |





| <b>Paragraph (ED 1)</b> | <b>Paragraph (FG)</b> | <b>Rationale and amendments to paragraph</b>   |
|-------------------------|-----------------------|--|
| AG9.20                  | G9.40                 | representation and relevance. These paragraphs explain how this should be done, The first sentence has been deleted as it simply provided a cross-reference to what is now the preceding paragraph.  |
| AG9.21                  | G9.42                 | This paragraph provides additional guidance on determining user needs in deciding what information to disclose. The first sentence has been deleted as it simply provided a cross-reference to what is now the preceding paragraph.  |
| AG9.22                  | G9.45                 | This paragraph provides guidance on the procedures for consolidating for-profit organisations. The first sentence has been deleted as it simply provided a cross-reference to what is now the preceding paragraph. Minor changes have been made to the text to ensure the wording is consistent with the preceding paragraphs.   |
| AG9.23                  | G9.47                 | These paragraphs provide additional guidance on the consolidation of entities that have equity.  |
| AG9.24                  | G9.48                 |  |
| AG9.25                  | G9.50                 | This paragraph expands on the mandatory requirements for allocating results between controlling and non-controlling interests. The first sentence has been deleted as it simply provided a cross-reference to what is now the preceding paragraph. This has necessitated a minor change to the second sentence to ensure the text follows on from the preceding paragraph. |

## Annex B – Additional Illustrative Examples

### ***Example 2 – Control may not follow voting rights***

Three NPOs (NPO A, NPO B and NPO C) have agreed to work collaboratively, and have entered into an agreement giving each NPO the right to nominate Board members to sit on the other NPO's Boards. The other Board members have no relationship with the other NPOs. There are no agreements between the NPOs regarding the exercise of their votes, and the composition of the various Boards mean that in the absence of such an agreement, there is no joint control.

The Board of NPO A is chaired by its founder, who is considered to exert greater influence over the decisions of the Board than their one vote would suggest. This influence does not extend to the Boards of NPO B and NPO C.

In preparing their financial statements, each NPO will need to assess whether it controls one or more of the other NPOs by assessing whether its share of the votes on the relative Board(s) (through being able to nominate members) gives it power over the key activities of the other NPO(s). If so, it will also assess whether it also has the other elements of control (exposure to variable returns and ability to use its power to affect the returns).

If the NPO's share of the vote does not give it control over the other NPO(s), the NPO also considers whether its share of the vote gives it significant influence over the other NPO(s).

In doing so, it will need to consider whether the influence of the founder of NPO A needs to be taken into account, and if so, how.

### ***Analysis***

*Scenario 1 – NPO A assesses whether it has control or significant influence over NPO B and NPO C.*

In this scenario, the influence of its founder need not be taken into account, as that influence only extends to the decisions taken by the Board of NPO A. There is no influence over the decisions taken by the Boards of NPO B and NPO C.

*Scenario 2 – NPO B and NPO C each assesses whether it has control or significant influence over NPO A*

In assessing its share of the vote, NPO B and NPO C may need to consider the influence of the founder of NPO A. This is unlikely to be an issue if NPO B or NPO C has a majority of the voting rights, as the NPO could address any question of influence by nominating different Board members. However, when considering significant influence, the NPO may need to consider whether, even if its voting share would normally be sufficient to give it significant influence, this

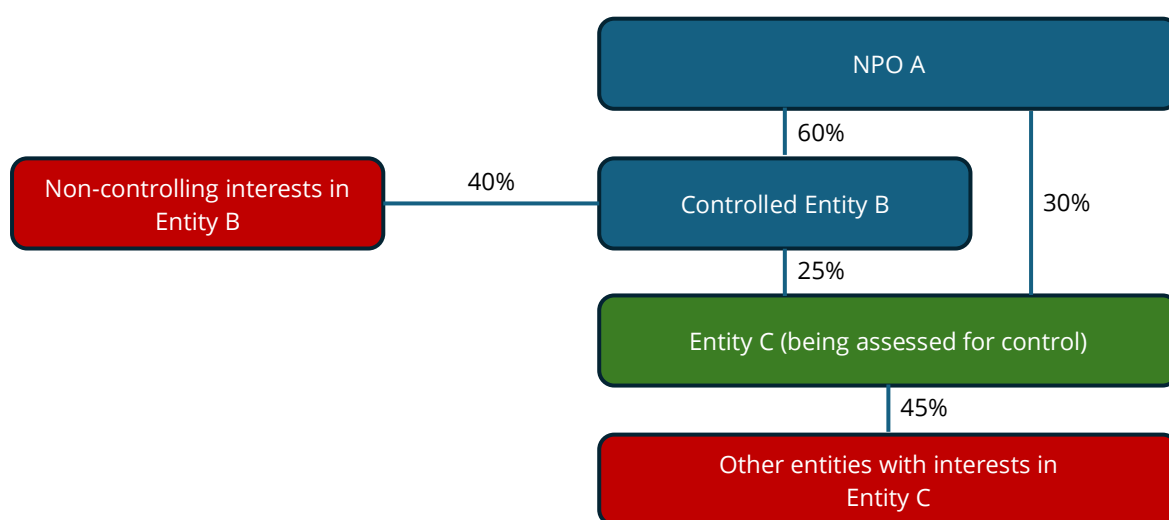
is negated by the influence of the founder. In doing so, the NPO will consider whether the founder's influence has the same effect as an agreement between Board members to always vote together.

**Example 3 – Assessing control where an interest is indirectly held through a controlled entity**

NPO A has interests in Entity C and needs to determine whether these interests give it control of Entity C. Entity C is a for-profit entity established by a number of NPOs to generate financial returns to support their missions.

NPO A directly owns 30% of the shares in Entity C. The remaining 70% of the shares in Entity C are owned by other entities, including Entity B, a for-profit entity in which NPO A has a majority shareholding (60%). Entity B owns 25% of the shares in Entity C, The remaining 45% of shares are owned by other entities that are not related to NPO A.

The ownership interests in Entity C are shown below:



**Analysis**

Paragraph G9.31 states that “control is presumed to exist when the NPO owns, directly or indirectly through controlled entities, the majority of the voting rights of an entity.” NPO A therefore needs to determine whether its interests in both Entity B and Entity C give it control of Entity C.

NPO A owns 60% of the voting rights in Entity B and there is no evidence that NPO A does not have one or more of the elements of control (power, exposure to variable returns and ability to

use its power to affect the returns). NPO A therefore controls Entity B. As a consequence of this control, NPO A includes Entity B's interest in Entity C when assessing whether it controls Entity C.

Including this interest means that NPO A controls 55% of the voting rights in Entity C (30% directly owned and 25% controlled through its control of Entity B). Unless it can be clearly demonstrated that NPO A does not have one or more of the elements of control, NPO A controls Entity C and should include Entity C in its consolidated financial statements.

It should be noted that, because NPO A controls (and therefore consolidates) entities that it does not wholly own, its consolidated financial statements will include non-controlling interests. For example, INPAG requires the surplus or deficit for the year to be allocated between an NPO and any non-controlling interest.

Although control of Entity C is determined by looking at how many shares are effectively controlled, when accounting for any surplus or deficit it is the actual amount of shares that are owned that determine the amount to be recognised as a non-controlling interest. Therefore NPO A needs to recognise the other shareholdings in Entity C and Entity B. This will give NPO A a lower share of the surplus or deficit than the amount of shares its control.

For example, because NPO A controls Entity B, 100% of Entity B's interests in Entity C are taken into account when assessing its control of Entity C. However, NPO A only owns 60% of the shares in Entity B and is therefore only entitled to 60% of Entity B's share of Entity C's surplus or deficit

In the case of Entity C, NPO A will allocate 55% of the surplus or deficit for the year to non-controlling interest. This 55% comprises 45% in respect of the non-controlling interests in Entity C, and 10% in respect of the non-controlling interests in Entity B (calculated as 40% non-controlling interest x 25% share of Entity C).

#### ***Example 4 – Financial statements of reporting NPO and controlled entity prepared at different dates***

NPO D is based in Country X, but also has operations in country Y. Due to the regulations in Country Y, the operations are carried out by NPO E, which is a separate legal entity in accordance with the regulations in Country Y. NPO E is a wholly owned by NPO D, and is therefore a controlled entity.

NPO D's financial reporting period ends on December 31<sup>st</sup>. NPO E's financial reporting period ends on September 30<sup>th</sup>; this is a legal requirement for NPOs in Country Y.

Paragraph G9.53 requires financial statements of NPO D and its controlled entity (NPO E) used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date (December 31<sup>st</sup>, NPO D's reporting date) unless it is impracticable to do so.

### ***Analysis***

NPO E cannot change its financial reporting period to match that of NPO D because of the legal requirements in Country Y. It is, therefore, impracticable for NPO D to use financial statements prepared at the same date, NPO D will need to consolidate the financial information of NPO E using its most recent financial statements, adjusted for the effects of significant transactions or events that occur between the date of those financial statements and the date of the consolidated financial statements.

*Case 1 NPO E's systems allow accounting information for January 1<sup>st</sup> to December 31<sup>st</sup> to be produced.*

Where NPO E's financial systems allow it to prepare information for the period January 1<sup>st</sup> to December 31<sup>st</sup>, NPO D should require NPO E to provide this additional information. This may be in the form of an internal reporting package, and will be additional to NPO E's annual financial statements as at 30<sup>th</sup> September.

*Case 2 NPO E's systems do not allow accounting information for January 1<sup>st</sup> to December 31<sup>st</sup> to be produced.*

Where NPO E's financial systems do not allow it to prepare information for the period January 1<sup>st</sup> to December 31<sup>st</sup>, NPO D should prepare the consolidated financial statements using NPO E's most recent financial statements, as adjusted for the effects of significant transactions or events that occur between the date of those financial statements (September 30<sup>th</sup>) and the date of the consolidated financial statements (December 31<sup>st</sup>). Examples of significant transactions or events include:

- the purchase or sale of a significant item of property, plant and equipment;
- a significant impairment loss for a significant asset or receivable;
- significant new revenue or expenses from new grant agreements; and
- assumption of (or amendments to) liabilities.



## Annex C – Revised Basis for Conclusions

### Introduction

BC9.1 The [IFR4NPO eConsultation Paper](#) considered the definition of the reporting entity in terms of the financial reporting definition and its links to the definition of control, ~~and The Consultation Paper also considered~~ the sometimes complex structures such as branches and other operational structures that can be established to reach local communities and the recipients of the goods and services provided by NPOs (see also comments in the basis of conclusions for **Section 2 Concepts and Pervasive Principles**).

### Requirement to present consolidated financial statements

#### Defining control

BC9.2 The Consultation Paper considered alternatives for the approach to the definition of control in relation to the reporting entity. Alternative 1 was based on the IFRS 10 – *Consolidated financial statements* and IPSAS 35 - *Consolidated financial statements* definition of control. Alternative 2 was based on the guidance in the *IFRS for SMEs* Accounting Standard 2015 edition that included a rebuttable presumption about control to simplify application.

BC9.3 The IFRS and IPSAS standards on consolidated financial statements require a judgement about control to be formed based the concepts of control in those standards.

BC9.4 On balance, respondents to the consultation favoured the approach in alternative 2, but there was also support for alternative 1. The reasons provided for favouring alternative 2 centred on the ease of application and respondents contrasted this with the resources that might be required in forming the judgements needed under alternative 1.

~~BC9.5 Alternative 1 was expressed as a preference by some respondents as this was consistent with the key international frameworks and because the control frameworks are based on the substance of the transaction and not the form. Comments included that NPOs can find it easier to understand the substance of the relationships in operation better than their legal forms. As the IASB and IPSASB frameworks do not use 'bright-lines' judgements, they can be more easily adopted in different jurisdictions.~~

~~BC9.6 A Focus Group held to explore these views further was more evenly balanced in support for the two alternatives. Attendees supported consultees views on both~~



~~approaches but placed additional emphasis on the resource benefits of alternative 2.~~

~~BC9.7~~BC9.5 Since the Consultation Paper was issued, the IASB has issued an Exposure Draft proposing revisions to the *IFRS for SMEs* Accounting Standard. In this revision, the IASB has ~~decided~~ agreed with respondents to its consultation to align the definition of control with IFRS 10. The IASB's view was that using the control model as a single basis for consolidation is a simplification. The IASB acknowledged, based on its Post Implementation Review of IFRS 10 that assessing control requires judgement, and that depending on the complexity of transactions this can sometimes be significant.

~~BC9.8~~BC9.6 The Technical Advisory Group were strongly of the view that alignment with IFRS 10 is important. On the basis of these views, the feedback from the Consultation Paper and the alignment proposed in the revised *IFRS for SMEs* Accounting Standard, the control framework in IFRS and IPSAS has ~~ve~~ been adopted. In drafting this section of INPAG in ED 1, the Guidance followed the proposals in the Exposure Draft of the Third Edition of the IFRS for SMEs Accounting Standard, and Additional Application Guidance was also included in ED 1. In developing this Application Guidance, the Technical Advisory Group supported the use of IPSAS 35 and other internationally available guidance to explain how these concepts apply to NPOs. The Application Guidance specifically addresses d how the concepts in IFRS 10 of:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

should be used in an NPO context.

~~BC9.7~~ Respondents to ED 1 generally welcomed the addition guidance provided, but expressed concerns that having authoritative guidance split across two locations made it more difficult to follow. To address this concern, the Technical Advisory Group agreed to combine the Guidance and Application Guidance into a single location.

~~BC9.9~~BC9.8 Respondents to ED 1 generally agreed that the guidance on the control principles was appropriate and sufficient. The Secretariat and the Technical Advisory Group agreed that no changes were required to these principles.

## Rebuttable presumption

~~BC9.10~~BC9.9 Paragraph 9.5 of the 2015 *IFRS for SMEs* Accounting Standard says that 'control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity'. It also provides other examples of





control relating to powers by virtue of voting rights, power to govern the financial or operating policies of an entity, powers to appoint members of the board, or to cast the majority of votes on the Board.

[BC9.11](#)[BC9.10](#) The *IFRS for SMEs* Accounting Standard includes a rebuttable presumption to simplify the application of the control concepts, which were considered by consultation respondents to be valuable for NPOs. Applying a rebuttable presumption would allow judgements to be formed in line with the benefits of alternative 1, but allows a simplified approach.

[BC9.11](#) The ED for the Third edition of the *IFRS for SMEs* Accounting Standard continues to include a rebuttable presumption to ease application of the control model. However, the examples have changed to focus on contractual arrangements between the parent and other vote holders, rights arising from other contractual arrangements, the parent's actual and potential votes. These examples appear to be less relevant to NPOs, where control might be more likely to come from the ability to govern the financial or operating policies of an entity and from the power to appoint trustees or members of a board. For a rebuttable presumption to be effective for NPOs, it needs to be applicable to a wide range of NPOs. As a consequence, it is proposed to retain the examples from the current *IFRS for SMEs* Accounting Standard rather than those in the Exposure Draft for the Third edition of the *IFRS for SMEs* Accounting Standard.

[BC9.12](#) [Respondents to ED 1 strongly supported the inclusion of the rebuttable presumption. However, some respondents considered the drafting required clarification, as INPAG considers a wider range of factors than voting rights. In particular, respondents questioned whether NPOs would have to assess all the elements of control if they were relying on the presumption. The Secretariat has included additional wording to address this concern.](#)

[BC9.12](#)[BC9.13](#) [\[Paragraph explaining changes to the wording of the rebuttable presumption once any wording in the \*IFRS for SMEs\* Accounting Standard has been published by the IASB.\]](#)

## **Basis of consolidation**

[BC9.13](#)[BC9.14](#) In developing the Guidance, the Technical Advisory Group raised questions about the conceptual basis of consolidation of NPOs and whether there were any differences between for-profit and non-profit entities. It was noted, predominantly through review of academic studies, that some users find it difficult to understand consolidated financial information, but value understanding the relationship between associated and controlled entities.

[BC9.14](#)[BC9.15](#) In some cases, the elimination of intra-group items may mean that information is less complete in a way which matters for some readers of the financial statements,





perhaps because important 'internal' transactions become invisible when eliminated. This might be best addressed by additional disclosure rather than producing a full consolidation. [Alternatively, the presentation of separate financial statements alongside the consolidated financial statements may provide the information users need and illustrate the significance of the group to the NPO.](#)

[BC9.15](#)[BC9.16](#) How the qualitative characteristics that form part of the concepts and pervasive principles for INPAG might apply to consolidation were considered. The two fundamental qualitative characteristics of 'faithful representation' and 'relevance' were identified as being important in considering whether controlled entities should be consolidated by a parent NPO.

[BC9.17](#) Further guidance to explain how an NPO might consider each of these characteristics in forming a judgement about whether it should consolidate a controlled entity has been developed.

[BC9.16](#)[BC9.18](#) [One respondent to ED 1 considered that guidance on the fundamental characteristics was unnecessary and could be replaced by a cross-reference to Section 2. The Secretariat and the TAG reviewed the guidance and concluded that having the guidance in the same location as the rest of the text on consolidation will be helpful to users of INPAG.](#)

[BC9.17](#)[BC9.19](#) The INPAG Secretariat was strongly of the view that, where an NPO has not consolidated a controlled entity, it must explain the reasons why, and set out the relationship between the entities. This should include information about the nature of the relationship, governance arrangements and the nature and value of transactions between the entities, including related party transactions.

## **Consolidation procedures, disclosures in consolidated financial statements, separate financial statements and combined financial statements**

[BC9.18](#) ~~The topic of consolidation was not prioritised in responses to the Consultation. It is therefore outside of the scope of current developments and will not be included in the initial INPAG. However, the INPAG Secretariat is keen to understand views on this topic to further develop the Guidance in subsequent phases.~~

[BC9.19](#)[BC9.20](#) A number of the requirements in [Section 9](#), particularly with regard to non-controlled entities, may be less likely to occur for NPOs. As a consequence, [paragraphs G9.6036 and to G9.6339](#) are intended to only be applied in the rare situations where they are needed by an NPO.

[BC9.20](#)[BC9.21](#) Changes to terminology have been made to be consistent with other Sections of INPAG and to reflect the nature of NPOs. [As noted in BC9.17, t](#)~~This Section has not~~



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been reviewed for NPO specific issues related to consolidation. As a consequence this Section is considered to only have been partially updated for the NPO context.