



16 September 2024

Head of Programme, IFR4NPO
Chartered Institute of Public Finance and Accountancy
77 Mansell Street, London, E1 8AN, UK

Dear Karen and team

Submission on INPAG Part 3 Exposure Draft

International Non-Profit Accounting Guidance (INPAG)

Thank you for the opportunity to make a submission on the above Exposure Draft (ED). As a member of the IFR4NPO's Practitioner Advisory Group (PAG), and of the research team that undertook in the CCAB Commissioned research in 2013/14 (Crawford et al., 2014) referred to in the ED, I am very supportive of the IFR4NPO project.

The INPAG work will importantly introduce a set of internationally-acceptable and legitimate standards for a broad range of non-profit organisations (NPOs) including those that some define as social enterprises, and other social-purpose entities that do not fit a for-profit or public sector reporting model. I appreciate the work behind INPAG Part 3 ED, including updates to prior sections.

Following the projected release of the updated IFRS for SMEs, it will be important to advise stakeholders of any impact on this guidance. I do note that the Part 3 ED has drawn on the most up-to-date material available.

While, I have provided input at various stages of this project as a member of the PAG, my responses below are made in my personal capacity. They do not reflect the views of the New Zealand Accounting Standards Board of which I am Chair, nor of Victoria University of Wellington.

I trust the comments I have made in the following pages, as well as others' submissions are helpful in moving INPAG forward to completion.

Yours sincerely,

Adjunct Professor Carolyn Cordery PhD, MCA, BBS, FCA ANZ, FCPA Australia
Wellington School of Business and Government

Question 1: Fund accounting (Section 36 and Section 5)

Not answered.

Question 2: Presentation of expenses, fundraising costs and related disclosures Section 24 Part I, Section 24 Part II and Section 33)

- a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?
- b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?
- c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?
- d) Do you agree with the expense disclosure requirements? If not, what would you change and why?
- e) Do you agree with the description of direct costs, shared costs and support costs and that these allow the full cost of an activity to be identified? If not, why not?
- f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising activities? If not, why not?
- g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders? If not, what would you change and why?
- h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?
- i) Do you agree that grants or donations made in arms'-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as a related party transaction? If not, why not?

- a) NPOs report that disaggregation and aggregation of expenses can be challenging (especially when assurance is required), thus I would prefer a softer set of arrangements that meant NPOs could present a mix without having to address a rebuttable presumption. The BCs make it clear why the 'by nature' has been prioritised. In this case comparability may trump the notion of faithful representation (see the requirements in, e.g. IPSAS 1), and I recognise the difficulty in choosing any one of essentially three methods.
- b) Yes.
- c) Yes.
- d) Yes.
- e) Yes. The Illustrative example 1 is helpful in this regard.
- f) See (g).
- g) The separate identification of fundraising costs can be a costly exercise and, when converted to a ratios, 'such ratios are a poor measure for efficiency and

effectiveness except for situations at the extremes' (McGregor-Lowndes et al., 2014). They can result in unintended consequences with stakeholders focusing on the number/percentage instead of the different types of fundraising activities that incur varying levels of costs and returns. The variety can be seen from the inclusion of many items in fundraising costs in the ED. For this reason, I do not support mandatory segregation of fundraising costs, but agree the guidance is useful for voluntary disclosure.

- h) See (g)
- i) Yes.

Question 3: Supplementary information (Section 37) and INPAG Practice Guide 1 – Supplementary statements

- a) Do you agree that the requirements of Section 37 do not have to be met unless Supplementary statements are prepared in accordance with INPAG Practice Guide 1– Supplementary statements? If not, why not?
- b) Do you agree that a whole of NPO supplementary statement need not be presented if the additional information is already in the financial statements and/or notes? If not, why not?
- c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?
- d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?
- e) Do you agree that the Supplementary statements are not part of the general purpose financial report but can be published as an annex? If not, why not?

- a) Yes. I believe the addition of this voluntary information is one of the many benefits of INPAG.
- b) Yes, disclosure overload could ensue if that was not the case.
- c) Yes, the example shown in the illustrative statements shows it can be useful.
- d) Yes, although other examples of costs may arise in the future.
- e) Yes, because they do not show the full entity accounts, but can be useful as a document attached to the general purpose financial reports to show detail of a specific project/funding stream.

Question 4: Illustrative financial statements (Implementation Guidance)

- a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered? rationale for your proposal?

- a) Yes.

Question 5: Equity (Section 22 and Section 2)

- a) Do you agree with the revised description of net assets and its inclusion as an element? If not, what would you change and why?
- b) Do you agree with the use of the term equity claims in Sections 2 and 22 and that equity claims are a subset of net assets? If not, what would you change and why?
- c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments and treasury shares are removed from Section 22 and that the paragraphs relating to capitalisation or bonus issues of shares and share splits and convertible debt or similar compound financial instruments are retained? If not, why not?

- a) Yes. The term 'net assets' should be defined/added to the glossary. Further, below I make some drafting suggestions:
 - i. Section 2, the last sentence of G2.81 ('However, not all items that meet the definition if one of those elements are recognised) could refer to G2.83 or have the words 'due to inherent uncertainties' added to the statement to assist understanding of when this may appropriately occur.
 - ii. Section 2, G2.141 reduce verbiage which can confuse by choosing either 'it may be necessary' OR 'where relevant'.
 - iii. Section 2, G2.147 add the word 'individual' before 'assets, liabilities, net assets...'
- b) Yes.
- c) Yes.

Question 6: Transition to INPAG (Section 38)

- a) Do you agree with the pragmatic approaches proposed for the first time adoption of INPAG? If not, what are the practical challenges that are likely to be experienced?
- b) Do you agree that compliance with INPAG can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not?

- a) Yes.
- b) A two-year period of transition allows the development of suitable comparatives for financial reporting. I would be concerned if narrative reporting was slower to develop, but requiring narrative reports by the end of that two-year period seems to be a pragmatic and staged solution. Full compliance should not be asserted until NPOs are complying with all requirements, financial and non-financial.

Question 7: Application of fair value (Sections 12, 16, 17 and 18)

- a) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in kind useful? If not, how could it be improved?
- b) Do you agree with the additional guidance provided for donated:
 - i. investment property (Section 16)? G16.7
 - ii. property, plant and equipment (Section 17)? G17.10
 - iii. intangible assets (Section 18)? G18.14If not, why not?

- a) Yes. The section and associated illustrative examples are clear and should be useful. I note that G12.21 refers to G11.17(c) and G11.65(b). These both discuss financial instruments. Is similar advice required for non-financial assets (for example a cross-reference to G16.11)?
- b) Yes. Para G16.8 is useful for donated investment property as are para 17.10 for property, plant and equipment and G18.12 for intangibles. It is important that there is guidance for donated assets and those funded by grants as these are common transactions for NPOs.

Question 8: Impairments (Section 27)

- a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential? If not, what would you change and why?
- b) Do you agree that the term operating unit better reflects the nature of an NPO's operations and with its proposed definition? If not, what alternative term would you use and why?
- c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential? If not, what would you change and why?

- a) Yes.
- b) This term is better than 'cash generating unit' for an NPO.
- c) Yes, as it can also include service potential that is non-financial.

Question 9: Combinations of entities (Section 19)

- a) Do you agree that the term 'business' can be applied by NPOs when taken alongside the amendments proposed, (including the expansion of examples of control)? If not, why not? What practical issues are experienced?
- b) Do you agree with the proposed exemption for two NPOs that have net assets and that it should not apply where one NPO has net liabilities? If not, describe the practical and accounting issues that arise?

- a) Yes. Further, the Implementation Guidance is also helpful for this section with relevant illustrative examples and a narrative that shows 'how to work through' a fact pattern. Two smaller matters:

- i. I would suggest a wording change for sense in G19.27 to ‘The consideration transferred by the acquiring NPO in exchange for the acquiree includes any asset or liability ...’
 - ii. Can AG19.2 be checked against AG19.4? (The numbering is repeated, so to avoid confusion in my reference to AG19.2 ‘A business will exist where these criteria are met regardless of the size of the inputs, processes or outputs’). Para AG19.4 states: ‘... However, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output’ and is followed by a flow chart under para AG19.7. Here the process is prioritised and the outputs are ‘potential’. Does this conflict with the requirement in AG19.2 – perhaps a reference between the two sub-sections would help?
- b) Yes, this is a pragmatic solution.

Question 10: Other topics (Sections 14, 15, 20 and 34)

- a) Do you agree that no further alignment changes are needed to:
 - i. Section 14 Investment in associates? Section 14
 - ii. Section 15 Joint arrangements? Section 15
 - iii. Section 20 Leases? Section 20
 If not, why not?
- b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?

- a) (i) and (ii) Section 14 and 15 on joint arrangements provide useful advice.
 - i. Nevertheless, to ensure appropriate implementation, I believe further education material could be required to ensure that NPOs think of themselves as ‘investing NPOs’ and appropriately assess ‘contractually agreed sharing of control of an arrangement’ for joint arrangements. The Guidance is clear, but supporting material could encourage good practice.
 - ii. See (i)
 - iii. I agree that the proposed Section 20 is helpful and the illustrative example provides helpful advice. However, I would support the comments made in the BCs that further advice on how to deal with peppercorn and concessionary leases would be useful in the future. This will also depend on what the IASB does with IFRS for SMEs in respect of lease accounting and the outcome of the IASB’s Post Implementation Review of IFRS16 Leases.
- b) Research shows NPOs are involved across the economy and this provides adequate material that can be used by a range of NPOs.

Question 11: Addendum

- a) Do you agree that the guidance for supplier finance arrangements is useful and relevant to NPOs? If not, what would you change and why?
- b) Do you agree that the guidance on lack of exchangeability is useful and relevant to NPOs? If not, what would you change and why?

- a) Regarding Section 7 (supplier finance arrangements), I agree with the TAG comments reported in BC7.9 that these arrangements are not common in NPOs and that therefore no significant amendments are required.
- b) Regarding Section 30 (lack of exchangeability), this is useful and includes recent IASB amendments to provide clarity.

References

- Crawford, L., Morgan, G. G., Cordery, C. J., & Breen, O. B. (2014). *International financial reporting for the not-for-profit sector: a study commissioned by the CCAB* (Issue February).
- McGregor-Lowndes, M., Flack, T., Poole, G., & Marsden, S. (2014). *Defining and Accounting for Fundraising Income and Expenses* (Issue July).