



INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

International Non-profit Accounting Guidance (INPAG) Exposure Draft 3

Response template

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 3](#)

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 11 question areas, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish. You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **16 September 2024 and must be in English.**

Responses can be submitted to ifr4npo@cipfa.org or through the website at www.ifr4npo.org/have-your-say

Respondent information:

First name:	Maija Arbolino & Antal Vincze	Country: (this should be the country in which you are based)	Unites States
Last name:		Professional interest: please choose from: <ul style="list-style-type: none"> • NPO, ie preparer of financial statements, • auditor, • accounting standard setter, • professional accounting organisation, • regulator of NPOs, • donor, • academic, • civil society, • user of NPO services, • other (please state) 	Donor
Email:	maija.arbolino@opensocietyfoundations.org & antal.vincze@opensocietyfoundations.org		
Position:	CFO & Director Internal Audit		
Organisation: (who do you work for)	Open Society Foundations		
Response submitted:	<ul style="list-style-type: none"> • on behalf of my organisation 		
Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.			Agree

This document has been designed purely to enable feedback to Exposure Draft 3. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at ifr4npo@cipfa.org.

1. [Question 1: Fund accounting](#)
2. [Question 2: Presentation of expenses, fundraising costs and related disclosures](#)
3. [Question 3: Supplementary information and INPAG Practice Guide 1 – Supplementary statements](#)
4. [Question 4: Illustrative financial statements](#)
5. [Question 5: Equity](#)
6. [Question 6: Transition to INPAG](#)
7. [Question 7: Application of fair value](#)
8. [Question 8: Impairments](#)
9. [Question 9: Combinations of entities](#)
10. [Question 10: Other topics in Exposure Draft 3](#)
11. [Question 11: IFRS for SMEs Addendum](#)

12. [General Feedback](#)

Specific Matters for Comment

Question 1: Fund accounting

INPAG Section 36 sets out the characteristics of a fund for the purposes of INPAG and whether a fund is presented in the financial statements as being with or without restrictions. A fund is presented as with restrictions where the use of resources is limited to a specific purpose or activity as a consequence of externally imposed legal or equivalent arrangements or where a fund is established for a fundraising campaign with an externally communicated commitment on the specific use for the funds. The guidance requires that the income, expenses, assets and liabilities associated with a fund are recorded. New disclosures are required for fund balances and movements in the year. INPAG Section 5 has been amended to remove the requirement to disclose funds with and without restrictions on the face of the Statement of Income and Expenses.

1 Fund accounting	References	Response
a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses should be removed? If not, why not?	G5.3, AG5.4	We agree with the removal of the requirement that funds ‘with restrictions’ and ‘without restrictions’ be presented in separate columns on the face of the Income statement, as long as the notes provide the detail, e.g. income and expense by major funding source.
b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?	G36.3–G36.4, Figure AG36.1	In general, in the guidance, the principles-based approach that focuses on the substance of the grant transactions, seems clear and embraces all potential scenarios we have considered.
c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and why? What are the practical considerations?	G36.5, G36.7, AG36.3	It is essential that NGO’s track income, expenses, assets and liabilities separately for each fund. The ability to do this is essential not only from donors’ perspective, but also for the purposes of the NPOs’ management reporting, cash flows management etc. At the same time, we do also understand the complications and the costs involved in doing so. It requires a suitable accounting system and the human resources that not all NPOs can afford. Appreciation of the administrative costs associated with such system by the donor community is key to facilitate NPOs’ compliance with this guidance.
d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?	G36.9	Yes, we agree. The two criteria are clear and well cover the scenarios we have considered.

1 Fund accounting	References	Response
e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	G36.11–G36.12	<p>Yes, we agree. This provides transparency on the full true cost of an activity/project vs. funds availed by donors, and, the extent to which the NPO is committed to utilize funds without restrictions, if available. We suggest:</p> <ul style="list-style-type: none"> the notes to the accounts explain the NPO’s plans to resolve situations when funds without restrictions are not available/sufficient, on a permanent basis, to cover (the aggregate of) cost overruns on individual funds, as an indication whether the situation is under control. <p>Separate tracking of transactions that are ‘allowable’ (‘permitted’ per G36.11) and ‘unallowable’ (i.e. requiring access to funds where they are allowable) under the arrangement that has led to the creation of the fund. This is to facilitate donor-engaged audits of expenses allowable under funds.</p>
f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	G36.21–G36.23	<p>Though these requirements may seem excessive, we agree with them, as they are necessary for a more granular insight for both prospective and current donors.</p> <p>Under G36.23, we suggest including ‘unless required by the respective funding source’ at the end of the first sentence.</p>
g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Implementation Guidance – Section 36	<p>Example #5 needs clarification that it is a scenario where there is no donor-imposed condition attached to each year’s grants of 100,000, i.e., unspent funds are eligible for spending in subsequent years.</p>

Question 2: Presentation of expenses, fundraising costs and related disclosures

INPAG Section 24 Part II provides guidance on the presentation of expenses. It permits an expense analysis by nature, by function, or a mixture of the two. It includes a rebuttable presumption that an analysis by nature is used unless another analysis provides information that is more relevant and reliable. Guidance is provided on the allocation and aggregation of costs where a functional or mixed presentation is used, which will be useful for calculating support costs. INPAG Section 24 Part III provides a definition of fundraising activities and identifies three categories to be disclosed: activities to generate donations, gifts and similar transfers; commercial and trading activities; and investment management. There is a pragmatic exception where costs need to be split between fundraising and other activities.

INPAG Section 33 on related party disclosures draws attention to the possibility that an NPO’s financial position and/or its surplus or deficit have been affected by the existence of related parties. Disclosure is required of personnel compensation made to governing body members as well as key management personnel. INPAG Section 28 has been updated to include the disclosure of short term employee related benefits.

2 Presentation of expenses	References	Response
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?	G24.43–G24.47, AG24.45–AG24.47	We suggest the implementation of a Functional Expense Statement as per US GAAP (i.e., a matrix report that shows, e.g., expenses by nature in rows and by function in columns, all in a single table). Such presentation is informative for users who are interested in either or both, seeing expenses by their nature and/or by function.
b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	G24.44	See answer to the previous question.
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?	G24.46, AG24.48	See answer to question a).
d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	G24.50–G24.57, G33.7–G33.11, G28.38	Yes we agree, though we assume the materiality principle applies to all of these.
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?	G24.48–G24.49	Yes we agree. This will help understand the full cost of each activity.
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?	G24.64–G24.66	We do not agree with G24.64 and G24.26, as we think the fundraising expense category should be used in a traditional sense, i.e. for expenses associated with activities seeking funds from donors. We suggest that expenses associated with Investment management and commercial activities be separately reported against the respective revenues they generate, as it provides for more useful and informative presentation, with a disclosure in the Note 2 of the financial statements.

2 Presentation of expenses	References	Response
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?	G24.72	Yes, we agree.
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?	G24.74	Yes, see comment to f) above.
i) Do you agree that grants or donations made in arm's-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?	G33.18 a)– G33.18 b)	We do not agree. For transparency, these should be separately disclosed.

Question 3: Supplementary information and INPAG Practice Guide 1 – Supplementary statements

INPAG Section 37 requires additional information to be disclosed when an NPO produces one or more supplementary statements using INPAG Practice Guide 1. NPOs may choose to prepare a single note to meet the requirements or disclose only the additional information. INPAG Practice Guide 1 – Supplementary Statements enables the presentation of key financial information about a specified activity, project or grant, in a prescribed statement format, which can be included as an Annex to the financial statements. The Practice Guide provides templates for different variants of reporting that includes comparison to budget, multiple grants, multiple time periods and different currencies.

3 INPAG Practice Guide 1	References	Response
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	G37.1–G37.2	Yes, we agree.

3 INPAG Practice Guide 1	References	Response
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?	G37.3, G37.10–G37.12	Yes, we agree.
c) Do you agree with the format of the Supplementary statement? If not, what would you change and why?	SS.5	
d) Do you agree with the options for the disclosure of capital and inventory related costs? If not, what would you change and why?	SS.18–SS.21	
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?	SS.25–SS.26	

Question 4: Illustrative financial statements

INPAG Implementation Guidance Annex A includes Illustrative financial statements. The templates have been populated with data to cover the most common NPO transactions. The illustrative financial statements focus on new INPAG requirements.

4 Illustrative financial statements	References	Response
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?	Illustrative financial statements	In general we agree. However, for more informative presentation of expenses, we suggest having a Functional Expense Statement included in the notes, as suggested earlier. In the current format, it is not easy to obtain a comprehensive picture of expenses, as related information is located at several places in the notes to the statements.

Question 5: Equity

INPAG Section 2 provides the concepts and principles on which INPAG is based. Amendments are proposed to equity and net assets as a result of feedback. Net assets is a new element defined as the residual amount of an NPO's assets and liabilities available to achieve its objectives. The term equity claim is introduced to describe equity type instruments, which is a subset of net assets. INPAG Section 22 has the principles for classifying financial instruments as either liabilities or equity claims. As INPAG does not use the term equity, consequential amendments reflect the expected nature of NPO equity claims.

5 Equity	References	Response
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?	G2.73	We agree with the revised definition for net assets in section G2.73.
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?	G2.74, AG2.6, AG2.7, Section 22	<p>The word 'equity (claims)' may not fairly reflect the actual substance and the rights and obligations of its contributor in the NPOs' world. It still implies some form of ownership by the 'holder' (or rather its contributor, see later) in the entity, and, it also implies as if the holder continues to have exposure over these funds, such as, e.g., rights to liquidate/sell these assets, or rights/obligations to realized/unrealized gains/losses/distributions related to them.</p> <p>'Founding capital and capital contributions' or simply, 'Founding capital' may better reflect the actual substance. This is based on our experience and assumption that capital contributions are typically the legally required minimum capital provided, e.g., by the NPO's founder(s), for establishing the NPO. In substance, such contributions have different underlying intentions and characteristics, and the related rights and obligations of the contributors) and of the recipient are also different from those of equity investments; thus the use of 'equity (claims)' may be confusing.</p> <p>Also, the use of the term 'holder' for the contributor implies as if they continue to have free exposure over those funds, which may rarely be the case; thus, the use of 'contributor' may better reflect the actual substance.</p> <p>The term equity claims, and its definitions under G2.7 and AG2.7 may need to be revisited to better reflect the actual substance, the underlying reasons, and the typical rights and obligations involved in such contributions to NPOs' capital.</p> <p>AG2.6 is clear and we agree with its text.</p>
c) Do you agree that the paragraphs relating to the sale of options, rights and warrants, extinguishing financial liabilities with equity claim instruments	G22.12–G22.15	We agree with the removal of the referred sections. However, we are not sure how relevant the sections on the capitalization of bonus issues of shares and share splits, convertible debts, or compound instruments are to NPOs, unless there are for-profit entities owned by the NPO.

5 Equity	References	Response
and treasury shares are removed from 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?		

Question 6: Transition to INPAG

INPAG Section 38 describes the requirements for recognising and measuring assets and liabilities to create a Statement of Financial Position when INPAG is adopted for the first time. Accumulated funds that contain historic surpluses and deficits must be split between funds with restrictions and funds without restrictions. Compliance with just the financial statements can be asserted ahead of full compliance. The narrative reporting requirements must be completed within a two-year period to be able to continue to express compliance with INPAG.

6 Transition to INPAG	References	Response
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?	G38.11–G38.12	Yes, we agree with the approaches adopted in G38.11 and the exemptions offered under G38.12 for first time adoption of INPAG.
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?	G38.5–G38.6	<p>We understand these transitional arrangements may make the adoption of INPAG more attractive.</p> <p>To answer this question, we were considering the impact these transitional provisions may have in the transitional years and potentially in the years beyond.</p> <p>E.g., will users' reliability of the financials be impacted in any way when full INPAG compliance is not provided (i.e. what user expectations may not be met in the transitional years)? What happens if an NPO is not able to achieve/not prioritizing full INPAG compliance for an extended period of time? What industry implications these arrangements may have, when one must comply with the full IFRS (for SMEs) in order to be compliant?</p> <p>Will auditors, who use INPAG as the benchmark to audit against, be impacted and how in the transitional years and in years beyond when full compliance is not provided (audit risk, audit strategy, wording of modified audit opinions and their impact on users)?</p>

6 Transition to INPAG	References	Response
		We have not been able to conclude on these as of submitting our answers.

Question 7: Application of fair value

INPAG Section 12 describes how to measure assets and liabilities using fair value. The use of fair value to determine the deemed cost of donated assets is reflected in INPAG Section 16, for investments in land or buildings that are held to earn rentals or for their capital appreciation, INPAG Section 17, for property, plant and equipment, including capitalisation and depreciation and INPAG Section 18, for identifiable non-monetary assets that does not have a physical substance (eg licenses). The cost model in Section 17 applies to all tangible assets that are held for use in the activities of the NPO and are expected to be used during more than one period as well as to property held to deliver an NPO's missional objectives, eg social housing. There are no exceptions for assets that are funded by grants or donations.

7 Application of fair value	References	Responses
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?	AG12.1- AG12.11	It is helpful (and overall consistent with IFRS).
b) Do you agree with the additional guidance provided for donated: i) investment property (Section 16)? ii) property, plant and equipment (Section 17)? iii) intangible assets (Section 18)? If not, why not?	G16.7 G17.10 G18.14	i) Yes, we agree with the additional guidance provided for donated investment property (G16.8), all other sections are in line with IFRS. ii) Yes, we agree with the guidance additional to IFRS. iii) Yes, we agree with the guidance additional to IFRS.

Question 8: Impairments

INPAG Section 27 requires that the carrying amount of an asset is reduced to the recoverable amount, where its carrying amount is higher than its recoverable amount. The new measurement base for inventories held for distribution at no or nominal cost has been added. The Section refers to an NPO's 'operating units' to encompass assets that are held for missional purposes rather than purely cash-generation.

8 Impairments	References	Responses
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?	G27.2–G27.4	Yes we agree.
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?	G27.8	Yes, it is fine to replace the cash generating unit with an operating unit.
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?	G27.15	Yes, we agree, however, the exercise of estimating the economic benefit or service potential may be highly judgmental and/or challenging in specific NPO contexts. We recommend disclosure in footnote 3

Question 9: Combinations of entities

INPAG Section 19 applies to the combining of entities, (including NPOs) that meet the definition of a business. The term business has been broadened to include the types of activities carried out by NPOs. It provides guidance on the recognition and measurement of the assets and liabilities acquired in a combination and includes a simplification where there is a combination of two NPOs that both have positive net assets.

9 Combinations of entities	References	Responses
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?	G19.4, G19.5, AG19.1–AG19.2	
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,	G19.24	

9 Combinations of entities	References	Responses
describe the practical and accounting issues that arise?		

Question 10: Other topics in Exposure Draft 3

INPAG Section 14 and INPAG Section 15 provide guidance on accounting for associates and joint arrangements in consolidated and separate financial statements respectively. INPAG Section 20 covers the accounting for all leases and INPAG Section 34 provides guidance on three types of specialised activities: agriculture, extractive activities and service concessions. None of these Sections have been amended other than for terminology changes.

10 Other topics in ED3	References	Response
a) Do you agree that no further alignment changes are needed to: i) Section 14 Investment in associates? ii) Section 15 Joint arrangements? iii) Section 20 Leases? If not, why not?	Section 14 Section 15 Section 20	
b) Is any of the guidance in Section 34 needed by NPOs? If yes, which elements of the section are needed and why?	Section 34	

Question 11: IFRS for SMEs Addendum

INPAG Section 7 and INPAG Section 30 (published in ED1 and ED2 respectively) have been updated as a consequence of additional text proposed in the Addendum to the draft Third edition of the IFRS for SMEs Accounting Standard issued by the International Accounting Standards Board on 28 March 2024. There is additional text on supplier finance arrangements in Section 7 and lack of exchangeability in Section 30.

11 Addendum	References	Responses
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?	G7.20A– G7.20B,	Yes, this may be helpful though probably to a lesser degree than we think.

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?	G30.5A, G30-31-32, AG30.26-AG30.43	Yes there may be, though probably not often, scenarios when this guidance will be helpful.
---	------------------------------------	--

General Feedback

Please share any other comments that you wish to raise on Exposure Draft 3. When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.

Reference	Comment