INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG06-07
25 February 2025 – Virtual

Other INPAG Sections (not modified)

Summary	This paper summarises the feedback to Specific matters for comment 8, 9, 10 and 11 in Exposure Draft 3 and proposes the way forward.
Purpose/Objective of the paper	This paper sets out the feedback from SMCs 8-11 in Exposure Draft 3 covering the following Sections: • Section 14 *Investments in associates* • Section 15 *Joint arrangements* • Section 19 *Business combinations including goodwill* • Section 20 *Leases* • Section 27 *Impairment of assets* • Section 34 *Specialised activities* • Updates to Section 7 *Statement of Cashflows and* Section 30 *Foreign currency translation* It sets out the Secretariat's response to the feedback provided and any proposed changes to the final drafting.
Other supporting items	n/a
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Actions for this meeting	**Comment and advise on** the Secretariat' proposed responses to the feedback on these sections, specifically**:** • Proposed additional text to clarify the use of the term 'business with regard to business combinations; • The clarifications in Section 27; and • The removal of the disclosure of amounts settled by finance providers with suppliers included in Section 7.

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Other INPAG Sections (not modified)

1. Introduction

1.1 ED3 included a number of sections that were not fully reviewed for this edition of INPAG, but were adapted to ensure alignment with other INPAG sections. This included the following:

- Section 14 *Investments in associates*
- Section 15 *Joint arrangements*
- Section 19 *Business combinations including goodwill*
- Section 20 *Leases*
- Section 27 *Impairment of assets*
- Section 34 *Specialised activities*
- Updates to Section 7 *Statement of Cashflows and* Section 30 *Foreign currency translation*

1.2 Questions about these Sections were covered in Specific matters for Comment (SMCs), 8, 9, 10 and 11. SMC 8 addressed Section 27, SMC 9 addressed Section 19, SMC 10 addressed Sections 14,15, 20 and 34 and SMC 11 addressed the updates to Section 7 and 30.

1.3 All of these sections were edited to reflect changes to terminology and more generally to align with new material and modifications made to other INPAG sections. The most significant changes were made to Section 19 to reflect the nature of NPOs 1 and to Section 27 to reflect service potential as a significant factor in measuring assets.

1.4 The final drafts of these documents are included in TAGFG06 – Annex.

2. Section 14 and 15 – Investment in associates and Joint arrangements

2.1 Section 14 provides guidance on accounting for associates in consolidated and separate financial statements. It defines an associate as an entity over which an NPO has significant influence, which is not a controlled entity or a joint arrangement.

2.2 Section 15 specifies accounting for joint arrangements in consolidated and separate financial statements. A joint arrangement exists where the parties to the arrangement have collective control of the arrangement.

2.3 Changes to Sections 14 and 15 from the IFRS for SMEs were editorial, aligning them with other parts of INPAG. SMC 10a) sought feedback on whether further alignment changes were needed for these sections. Out of thirty-nine respondents to this SMC, thirty-five (90%) agreed that no further alignment changes are needed. While four respondents disagreed with the SMC, three specifically opposed the proposals for Sections 14 and 15.

2.4 Seven respondents provided supportive comments, emphasising the adequacy of these sections, their alignment with international standards, and their applicability to NPOs. Another respondent recommended further clarity on specific circumstances of associates or joint arrangements and another respondent that additional materials would help NPOs properly assess contractual agreements related to joint arrangements.

2.5 The three respondents who disagreed primarily raised concerns regarding terminology and the classification of certain NPO relationships. One respondent who disagreed suggested renaming Section 14 to “Associate Accounting” to better reflect that an associate can be either a commercial entity or another NPO. The respondent suggested that, for NPOs, significant influence often arises from board involvement rather than financial investment, making terms like *investment* and *returns* less relevant. The respondent also recommended replacing *investing NPO* with “reporting NPO” to acknowledge that influence may stem from governance links rather than commercial activities. Additionally, the respondent proposed clarifying that an associate can include an “unincorporated” entity, not just an entity.

2.6 Another respondent who disagreed preferred the term "Beneficial Interest in Associates" for Section 14, instead of *Investment in Associates*. The third respondent proposed that where an associate is itself an NPO, and the relationship exists to further the mission of the investing NPO rather than generate financial returns, such interests should be separately disclosed. The respondent also suggested a similar distinction for joint arrangements, particularly where NPOs appoint the board to advance their mission. The respondent highlighted that this approach aligns with paragraph 29.11 of the UK Charities SORP.

2.7 Points about terminology were raised in connection with Section 9 *Consolidated and separate financial* statements, which was included in Exposure Draft 1. This was discussed with TAG members in September 2024. Consistent with the feedback from those discussions, while recognising the possibility of alternative terms, the Secretariat does not propose amendments or alternative terminology until a full review of Sections 14 and 15 takes place for a future edition of INPAG. The Basis for Conclusions has been updated to reflect this feedback.

Question 1: Do TAG members agree with the Secretariat’s responses to the feedback on SMC 10(a) and with no amendments to terminology in Section 14 and Section 15 for this edition of INPAG?

3. Section 19 – Business combinations including goodwill

3.1 Section 19, provides guidance on the recognition and measurement of assets and liabilities following an event that meets the definition of a business combination.

3.2 The term business, while retained in INPAG because of the risk of unintended consequences if it were changed, was broadened to encompass the types of activities carried out by NPOs. A simplification was also added where two NPOs both having net positive assets combine. These points were covered in SMC 9.

SMC 9a) –the term business can be applied by NPOs when taken alongside the amendments proposed, including the expansion of examples of control.

3.3 Sixty five percent (30 respondents) agreed that the term business can be applied by NPOs when taken alongside the amendments proposed. Thirty percent (13 respondents) disagreed, with five percent (2 respondents) neither agreeing or disagreeing. Twenty respondents didn't provide feedback on this SMC.

3.4 Nine respondents that agreed provided comments that the term business can be applied to NPOs and was suitable alongside the proposed amendments. While one respondent commented positively that the proposals reflected the diverse nature of NPO operations, one respondent was of the view that G19.4 could be clearer that business includes other NPOs. One of these respondents asked for additional examples to support capacity building in the future.

3.5 However, 12 respondents disagreed with the term 'business' with views that this term was not appropriate for NPOs. Most of these respondents were of the view that 'business' was more aligned with how people think about commercial operations and profit making and therefore could be misleading or confusing. These respondents suggested alternative terms such as 'organisation', 'entity', 'merger', 'operational combination' or 'combined operation/activity', 'combination of entities, 'business or combining entities or NPOs', or 'transaction'. One respondent was of the view that the term 'company' is appropriate but only if additional clarification is provided so that NPOs can understand the definition correctly.

3.6 Another respondent that disagreed was concerned about how local regulatory frameworks might impact on NPO operational and reporting requirements if the term 'business' is used as these local changes may not be relevant to NPOs.

3.7 The Secretariat notes that concerns raised and the possibility of confusion or being misleading. The Secretariat also notes that this section is framed to describe a business combinations as a transaction rather than describing an NPO itself. The Secretariat remains concerned that changing the term 'business' without a full review of the Section may lead to unintended consequences, particularly where alternative terms are used within INPAG with a different definition. However, to address these concerns, the Secretariat proposes to include an additional paragraph to clarify how 'business' is used within this Section.

3.8 Section G19.4 describes a business combination as *a transaction or other event in which an acquiring NPO obtains control of one or more businesses*. However, in G19.2, where scope is considered, the drafting considers 'combinations of entities or businesses'. This could be causing some confusion about the difference between entities and businesses. The Secretariat proposes to remove entities from this description and rely on the definition of a business to describe an entity, which would then include NPOs. This is relevant to the paragraphs shown in Appendix B. On balance, the Secretariat does not propose to amend G19.4 as suggested to say that business includes NPOs as this could add to confusion.

3.9 One respondent that disagreed was of the view that the acquisition method should not be used for all combinations, citing mergers between NPOs where an NPO winds up and transfers its assets and activities to another NPO. In these instances the respondent was of the view that of there are net assets these should be shown as a capital grant by the recipient and separated from other transactions. Another respondent that disagreed explicitly supported the use of merger accounting reflecting that NPO are more likely to combine than to take place in merger acquisitions. A third respondent suggested that given instances of combinations are rare, that consideration should be given to including such guidance under specialised activities.

3.10 One respondent that agreed also raised concerns about goodwill, particularly where no consideration is paid by an NPO in exchange for the receipt of a business unit. A respondent to SMC 9b) also questioned whether there were additional factors for two NPOs combining where there is no consideration.

3.11 As noted in paragraph 1.3 of this paper, Section 19 was not fully reviewed for this edition of INPAG, with changes made for alignment purposes only. As a consequence, the Secretariat does not propose to address the points raised in feedback relating to merger accounting, combinations of NPOs with zero consideration and the accounting for goodwill at this point. The Secretariat proposes to use this feedback to inform the development of this topic for a future edition of INPAG.

3.12 One of the respondents that disagreed and another that agreed also identified some drafting points. This included expanding the definition of an output to include any other activity or result that may support the goals of the NPO and clarifications to the Application Guidance. The Secretariat has actioned a number of these drafting points as set out in Appendix B. Appendix C includes the Secretariat's detailed response for each drafting point.

SMC 9b) –exemption for two NPOs that have net assets

3.13 Seventy nine percent (31 respondents) agreed with the proposed exemption from additional procedures for a bargain purchase where two NPOs are combining that both have positive net assets. Thirteen percent (5 respondents) disagreed, with eight percent (3 respondents) neither agreeing or disagreeing. Twenty four respondents didn't provide feedback on this SMC.

3.14 Some of the comments made in response to this SMC were an extension of the comments made about the use of the term 'business' by NPOs, and these responses reflected disagreement with the use of this term. This included one respondent who was of the view that the exemption would not be required if merger accounting principles were followed.

3.15 One respondent was of the view that the proposal was a pragmatic approach as it would represent a gift of resources, but went on to say that perhaps merger accounting, which portrays the two entities as simply aggregated in a new operational model might be a fairer representation. Three respondents that agreed with the exemption requested further clarity on certain situations, including where one or more of the NPOs involved in the combination have net liabilities.

3.16 Two respondents that disagreed with the exemption were of the view that a reassessment following a bargain purchase would benefit the acquiring NPO to confirm what is being acquired and that these were a necessary double check. Another respondent that disagreed cited practical issues including difficulty of determining when the exemption should be applied, inconsistency in applying the guidance and problems in accounting for goodwill.

3.17 As previously noted, the Secretariat proposes to fully consider this topic for a future edition of INPAG. This will include the accounting for NPO specific circumstances including where NPOs combine for no consideration. Given the strong support for the proposal the Secretariat does not propose any further amendments at this point.

3.18 The Basis for Conclusions has been updated to reflect the feedback on this Section. It has also been restructured, with headings better aligned with the authoritative text.

Question 2: Do TAG members agree that the Secretariat's proposal that the term 'business' should not be amended for this edition of INPAG? If not, what are TAG members' views on an alternative? What are TAG members' views on the additional paragraph at G19.3?

Question 3: Do TAG members agree with the Secretariat's proposed responses to the other feedback provided, including the amendments proposed in Appendix B?

4. Section 20 – Leases

4.1 This section outlines the accounting for leases, distinguishing between finance leases (where most risks and rewards of ownership are transferred) and operating leases (where they are not). It provides guidance on recognition, measurement, and disclosures. Changes to Section 20 from the IFRS for SMEs were mainly editorial, aligning it with other sections of INPAG.

4.2 The SMC on Leases in Section 20 sought feedback on whether respondents agreed that no further alignment changes were needed. This was asked alongside Investment in Associates (Section 14) and Joint Arrangements (Section 15) in SMC 10(a). As the feedback for Section 20 was collected within the same SMC, the level of agreement aligns with that reported for Sections 14 and 15 above. This section specifically considers comments from respondents who referred to leases.

4.3 One respondent who agreed that editorial amendments were sufficient noted that in Australia, AASB 16 allows NPOs to measure leased assets and liabilities by class for concessionary leases but did not recommend additional disclosures. Another respondent found the guidance and illustrative example helpful and supported the Basis for Conclusion's view that future advice on concessionary and peppercorn leases would be beneficial. The respondent emphasised the need for the Standard to reflect any future developments in IFRS for SMEs on Leases and the IASB's review of IFRS 16 in future editions. A third respondent agreed that the section provides clear guidance on lease categorisation and ensures consistency in lease accounting, concluding that no further revisions are needed.

4.4 One respondent who disagreed highlighted that concessionary leases are a challenging area, as indicated by feedback from local consultations on similar reporting frameworks. The respondent recommended including guidance on valuing concessionary leases as a temporary measure until the fair value chapter undergoes a comprehensive review.

4.5 Feedback on concessionary leases was also provided in response to Section 11 *Financial* instruments. The Secretariat agrees that guidance on this topic will be useful, but as neither Section 11 nor Section 20 have been fully reviewed, the Secretariat does not propose amendments at this stage. All of the feedback received will be considered for a future edition of INPAG.

Question 4: Do TAG members with the Secretariat's responses to the feedback on Section 20 and the decision not to propose amendments or provide additional guidance on concessionary leases at this stage?

5. Section 27 – Impairment of assets

5.1 Section 27 provides accounting guidance for situations where the carrying value of an asset is higher than its recoverable amount. The Section includes new guidance for inventory impairment as a consequence of the inclusion of new measurement base in Section 13 *Inventories* for inventories held for distribution at no or nominal cost. Section 27 sets out that when considering 'value in use', service potential can explicitly be considered.

5.2 An amendment was also made to replace the term 'cash-generating unit' with 'operating unit' to reflect that NPOs can hold assets for a missional purposes rather than just for cash generation. These points were all covered in SMC 8.

SMC 8a) – impairment of inventory held for distribution at no or nominal cost

5.3 Ninety eight percent (44 respondents) agreed that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential. Two percent (1 respondent) disagreed. Eighteen respondents didn't provide feedback on this SMC.

5.4 Eleven respondents provided supportive comments, arguing that the proposed impairment approach was more reflective of the value of these inventories to an NPO and how they are used. One respondent added that the approach reflects the reality that some inventory may lose its usefulness over time, even if it hasn't been physically damaged.

5.5 A respondent that supported the approach to the user of service potential in measurement of inventories, was of the view that the conceptual framework for properly defining service potential is absent. As service potential is contextual to each NPO the respondent was of the view that this is needed. Service potential is recognised in Section 2 *Concepts and pervasive principles*, and the Secretariat acknowledges that INPAG does not currently include more detailed guidance to support its application. This topic will be addressed in a subsequent edition of INPAG. The IPSASB Conceptual Framework provides guidance on service potential and its use as a potential reference material is explained in the Basis for Conclusions.

5.6 Four respondents that also agreed made reference to materiality in their responses. Two of these respondents were arguing for a materiality threshold because of the cost or difficulty in carrying out an impairment assessment. Another respondent was of the view that where impairment adjustments are not material that a narrative description could be sufficient. The other respondent was of the view that impairments may not be applicable for small NPOs.

5.7 The Secretariat has considered materiality in relation to other INPAG Sections and consistent with previous advice proposes to rely on general materiality guidance that has been developed for Section 2. Reflecting this previous advice, the Secretariat does not propose materiality guidance specific for this section, or to propose materiality thresholds. The Secretariat considers that this Section will apply to NPOs of all sizes, but recognises that for smaller NPOs the requirements of this section may be immaterial. Where impairments are immaterial the Secretariat does not propose a narrative description, but NPOs may provide this where it is useful to the users of its general purpose financial report.

5.8 A respondent that agreed with the inclusion of the additional measurement base, did not support the text in G27.4 regarding the reversal of impairment. This respondent was of the view that the burden of carrying this out would outweigh the value to stakeholders. They argued that it should not be possible to reverse an impairment or at least make it optional.

5.9 The respondent that disagreed was of the view that inventory should be held at cost and should be written down to zero only when it cannot be used. The rationale for this related to the operating objectives of NPOs and the usefulness of inventory to beneficiaries in different locations.

5.10 As these are both requirements of the *IFRS for SMEs* Accounting Standard, and there are no NPO-specific accounting issues, the Secretariat proposes to retain these requirements. Extracts of the detailed responses to the feedback are in Appendix C. No consequential amendments are proposed.

SMC 8 b) – use of the term operating unit rather than cash-generating unit

5.11 Ninety six percent (41 respondents) agreed that the term operating unit better reflects the nature an NPO's operations and its proposed definition. Two percent (1 respondent) disagreed, with two percent (1 respondent) neither agreeing nor disagreeing. Twenty respondents didn't provide feedback on this SMC. Additionally, in a survey question about the importance of modifying the term cash-generating unit to include assets that do not generate cash, seventy eight percent of respondents were of the view that this was very or somewhat important, with twelve percent of the view that it was not important and ten percent unsure.

5.12 Those that agreed with the use of the term operating unit were of the view that the term is more relevant than cash-generating unit and is more consistent with NPO's holding assets for their service potential rather than cash flows. A respondent was also of the view that the term is broad and flexible and could be applied to different types of organisation structures and activities commonly found in NPOs.

5.13 The respondent that disagreed was of the view that the term was unhelpful as 'operating unit' could be confused with a department of section of an NPO providing specific services or services in a particular area. This respondent suggested referring to 'collections of similar assets'.

5.14 The respondent that neither agreed nor disagreed cited the importance of the context of an NPO's operational activities and proposed that to fully reflect all NPOs a reference to service potential should be added as an alternative approach to impairment or one blended with cash-flows. The Secretariat agrees that references to service potential are needed as an NPO's operational activities might not always be focused on cash generation. The Secretariat is of the view that this is addressed in G27.15 and G27.16 and that no further changes are needed.

5.15 A respondent that agreed suggested expanding the indicators of impairment in G27.9 to include indication of impairment arising from a loss of service potential. The loss of service potential was intended to be captured in G27.9 b), which refers to an adverse effect on service delivery and is explicitly referred to in G27.16, which sets out the elements to be reflected in as assets value. Rather than adding a new indicator in G27.9 b), the Secretariat has added an explicit reference to service potential in G27.9 b) as set out in Appendix B.

SMC8 c) – use of service potential within economic benefits

5.16 Ninety percent (39 respondents) agreed that impairments can take account of other economic benefits and service potential. Five percent (2 respondents) disagreed, with five percent (2 respondents) neither agreeing nor disagreeing. Twenty respondents didn't provide feedback on this SMC. Additionally, in a survey question about whether service potential and other economic benefits should be considered in assessing impairment, seventy nine percent agreed, twelve percent agreed with caveats and nine percent were unsure. One respondent (less than one percent) disagreed.

5.17 Nine respondents provided comments to directly support the proposal. One noted the relevance of economic benefits and service potential as NPOs operate with a wider mandate than for-profit entities. Another respondent noted that it would enable NPOs to accurately reflect their assets in financial reports, particularly when the service potential of these assets has diminished. Another of these respondents suggested consideration be given to adding examples.

5.18 Three respondents that agreed made specific references to measuring service potential. One respondent welcomed the inclusion of service potential but noted that it is odd to apply net present value calculations as an aspect of value in use to service potential (where there is an absence of cash flows). They suggested that an NPO-specific measure is required in respect of service potential. One of the other respondents proposed additional guidance on how service potential should be measured or quantified to ensure consistency and clarity in applying this principle across NPOs. The other respondent noted the judgements needed and challenges in specific NPO contexts and recommended disclosures.

5.19 A respondent that disagreed commented on the difficulty of measuring other economic benefits for NPOs and therefore that in practice few NPOs will be able to apply the approach. Two respondents, both from the same jurisdiction, that neither agreed nor disagreed commented on limitations that might arise from religious law.

5.20 The Secretariat notes the support for the inclusion of service potential and acknowledges the potential difficulties with its measurement, given that INPAG does not currently include detailed guidance to support the application of service potential. This will be addressed in subsequent editions of INPAG. This is explained in BC27.6 and BC27.7 (see Appendix B).

5.21 A respondent that agreed, proposed to amend paragraph G27.15 (b) to state how economic benefit or service potential would be estimated. The responded suggested '*….other economic benefit or service potential the NPO expects to derive from the asset, which in the case of an NPO would be the net funds, grants it would receive and use in future years*'.

5.22 The Secretariat proposes to consider this feedback further when work has been carried out to develop additional guidance to support the application of service potential. This will ensure consistency across all INPAG sections. This approach is explained in the Basis for Conclusions.

5.23 The Basis for Conclusions has been updated to reflect the feedback received. It has also been restructured to better align with the content in the authoritative guidance.

Question 5: Do TAG members agree with the Secretariat's responses to the feedback on SMC 8a) and that no amendments are made to the impairment of inventories?

Question 6: Do TAG members agree with the Secretariat's responses to the feedback SMC 8b) and that the 'term operating' unit is retained?

Question 7: Do TAG members agree with the Secretariat's responses to SMC 8 c)? Do TAG members agree with the amendment made to G27.9 b) to specifically reference loss of service potential as an example of an adverse effect on service delivery?

6. Section 34 – Specialised activities

6.1 Section 34 provides guidance on three types of specialised activities: agriculture, extractive activities, and service concessions. It outlines recognition, measurement, and disclosure requirements for each activity. Changes from the IFRS for SMEs were editorial, aligning the section with other parts of INPAG.

6.2 As part of the ED3 survey, 127 respondents provided feedback on the importance of including guidance on specific specialised activities (see Appendix A – Survey responses):

- Agriculture: 76% considered it very or somewhat important, while 20% found it not so important and 4% were unsure.
- Extractive industries: 56% considered it very or somewhat important, while 35% found it not so important and 9% were unsure.
- Service concessions: 68% considered it very or somewhat important, while 22% found it not so important and 10% were unsure.

6.3 SMC 10(b) sought feedback on whether any of the guidance in Section 34 is needed by NPOs, and if so, which elements are relevant and why. Thirty-four respondents provided feedback on this SMC, with 28 (82%) agreeing that some or all elements of Section 34 are needed.

6.4 Most respondents agreed that at least some guidance in Section 34 of the *IFRS for SMEs* Accounting Standard is relevant for NPOs. One respondent emphasised that the entire section is relevant, rather than just selected parts. Three respondents highlighted the need for guidance on agricultural activities only, while nine also identified extractive activities and service concessions as relevant. Two respondents recommended that INPAG provide implementation guidance on all three specialised activities. One respondent noted that Section 34 may be relevant to NPOs in cases where these activities involve investments or legacy items provided by donors. Additionally, two respondents emphasised the broad applicability of the guidance, given the diverse roles NPOs play across the economy.

6.5 A minority (18%) of respondents (six), disagreed, were of the view that the guidance is unnecessary for most NPOs and should either be removed or cross-referenced externally. One of these respondents was of the view that the fair value requirements for agricultural activities are impractical, as fair value is difficult to determine for bearer animals and short-term crops, making a cost-based approach more suitable. For extractive activities, this respondent stated that standard asset recognition criteria should apply instead of specialised guidance, given the limited involvement of NPOs in mining. This respondent also opposed exceptions to capitalisation criteria solely for mining activities. This respondent also highlighted the complexity of determining whether an arrangement qualifies for service concession arrangements, the additional documentation required, and the limited relevance to NPOs. The respondent noted that financial and intangible asset models for service concession arrangements may not align with NPO operations.

6.6 The feedback has highlighted the relevance of Section 34 is relevant for NPOs and this has been updated in the Basis for Conclusions. Retaining this Section will ensure NPO-specific issues are considered for future editions of INPAG. The feedback provided on agriculture, extractive activities, and service concessions, will be used in the future review of this Section. No amendments are proposed for this edition of INPAG.

Question 8: Do TAG members agree with the Secretariat's responses to the feedback on SMC 10(b) – Section 34, supporting its inclusion in INPAG and the decision not to propose amendments at this stage?

7. Next steps

7.1 Subject to the comments made by TAG members in response to this paper, the Secretariat intends to treat the drafts shared alongside this paper as final.

7.2 TAG members will next see the updated paragraphs in the full draft of the document that is planned to be circulated in April 2025. This draft will be used to collect final feedback ahead of the version that will be put forward for approval on 3 June 2025.

February 2025

Appendix A Summary of Feedback Responses

ED3 SMC 8 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?	Response	Number	% of those who responded
	Agree	44	98%
	Disagree	1	2%
	Neither agree nor disagree	-	-
	No Response	18	-
		63	100%

ED3 SMC 8 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?	Response	Number	% of those who responded
	Agree	41	96%
	Disagree	1	2%
	Neither agree nor disagree	1	2%
	No Response	20	-
		63	100%

ED3 SMC 8 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?	Response	Number	% of those who responded
	Agree	39	90%
	Disagree	2	5%
	Neither agree nor disagree	2	5%
	No Response	20	-
		63	100%

ED3 SMC 9 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	**Response**	**Number**	**% of those who responded**
	Agree	28	65%
	Disagree	13	30%
	Neither agree nor disagree	2	5%
	No Response	20	-
		63	100%

ED3 SMC 9 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.	**Response**	**Number**	**% of those who responded**
	Agree	31	79%
	Disagree	5	13%
	Neither agree nor disagree	3	8%
	No Response	24	-
		63	100%

ED3 SMC 10 a) Do you agree that no further alignment changes are needed to: (i) Investment in associates Section 14, (ii) Joint arrangements Section 15, (iii) Leases Section 20. If not, why not?	**Response**	**Number**	**% of those who responded**
	Agree	36	92%
	Disagree	3	8%
	Neither agree nor disagree	-	-
	No Response	24	-
		63	100%

ED3 SMC 10 b) Is any of the guidance in Section 34 needed by NPOs. If yes, which elements of the section are needed and why?	Response	Number	% of those who responded
	Agree	28	82%
	Disagree	6	18%
	Neither agree nor disagree	-	-
	No Response	29	-
		63	100%

Survey responses

	Very important	Somewhat important	Not important	Not sure
How important is it that references to a cash-generating unit (when impairing assets) are modified to include assets that do not generate cash?	45%	33%	12%	10%

	Yes	Yes, but...	No	Not sure
Do you agree that when assessing impairment NPOs should consider service potential and other economic benefits and not just cashflows?	79%	12%	0%	9%

	Very important	Somewhat important	Not important	Not sure
How important is that INPAG includes guidance on agriculture (eg valuing agricultural assets)?	45%	31%	20%	4%
How important is that INPAG includes guidance on extractive industries (eg mining, oils & gas)?	32%	24%	35%	9%
How important is that INPAG includes guidance on service concessions (eg operating infrastructure assets such as roads, energy distribution networks, or hospitals)?	40%	28%	22%	10%

Appendix B – Updates to the drafting

Section 19 *Business combinations and goodwill*

Scope of this section

………

G19.2 This section does not apply to:

(a) combinations of ~~entities or~~ **businesses** under common **control**. Common control means that all of the combining ~~entities or~~ businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

(b) formations of a **joint arrangement** in the financial statements of the joint arrangement itself.

(c) acquisitions of an asset or a group of assets that does not constitute a business.

G19.3 The terms 'business' and 'business combination' are used in this section to define specific transactions and how recognition and measurement principles apply to such transactions. NPOs are characterised in INPAG Section 1 *NPOs*. Section 19 does not supersede the guidance in Section 1.

……..

Application Guidance

Definition of a business (application of paragraph G19.3)

AG19.1 A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. The three elements of a business are defined as follows:

(a) **input:** any economic resource that creates outputs, or has the ability to contribute to the creation of outputs when one or more processes are applied to it. Examples include non-current assets, intellectual property, the ability to obtain access to necessary materials or rights and employees.

(b) **process:** any system, standard, protocol, convention or rule that when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. Examples include strategic management processes, operational processes and resource management processes.

(c) **output:** the result of inputs and processes applied to those inputs that provide goods, ~~o~~r services or other activities aligned with the missional objectives of the NPO to service beneficiaries, customers, generate investment income or generate other income from ordinary activities.

AG19.2 A business will exist where these criteria are met regardless of the size of the inputs, processes or outputs further described in AG19.5. The requirements of this section will therefore apply to all businesses of all sizes including small businesses.

Section 27 *Impairment of assets*

Impairment of assets other than inventories

General principles

....

G27.9 In assessing whether there is any indication that an asset may be impaired, an NPO shall consider, as a minimum, the following indications:

External sources of information

(a) during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) significant changes with an adverse effect on the NPO have taken place during the period, or will take place in the near future, in the technological, market, economic, service delivery (eg loss of service potential), or legal environment in which the NPO operates or in the activities to which an asset is dedicated.

(c) market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect materially the discount rate used in calculating an asset's ***value in use*** *and decrease the asset's fair value less costs to sell.*

(d) the carrying amount of the net assets of the NPO is more than the estimated fair value of the NPO as a whole (such an estimate may have been made, for example, in relation to the potential sale of part or all of the NPO).

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Appendix C – Extracts from responses

Extracts from the responses to SMC 8

SMC 8a) Do you agree that inventory held for distribution is measured for impairment using cost adjusted for any loss of service potential.

Feedback	Secretariat's response
Comments from those that agreed	
Yes. Concerning G27.3 - assets for distribution, if purchased makes sense to impair, if donated assets (e.g. books, food or other goods received for distribution) might need to add guidance on the adjustments required to the 'deferred revenue' component of the transaction.	Support for the measurement base is noted. The Secretariat does not anticipate any adjustments to deferred revenue, as an impairment will only be recorded when the donated asset is recorded as inventory. The impairment will be an expense at this point. Measurement on initial recognition will take account of the condition of the donated asset and will be directly recognised as revenue.
The theory is good since such inventory is not held to generate cash-flows but to further the NPO's purpose. The conceptual framework for properly defining service potential though is not there. Arguably service potential is contextual to each NPO reflecting its purposes, operating model, forms of delivery to beneficiaries, how it assesses its own effectiveness and performance and aspects of obsolescence. (In fairness the UK Charities SORP in applying local GAAP (FRS102) only has a high level GAAP definition to draw upon (glossary appendix 1 to FRS102) and so the SORP is also broadly framed too- see paragraph 12.13.)	Service potential is recognised in Section 2 *Concepts and pervasive principles.* The Secretariat acknowledges that INPAG does not currently include more detailed guidance to support its application. This will be addressed in a subsequent edition of INPAG. References can be made to the guidance on service potential available in section 7 of the IPSASB Conceptual Framework.
Yes, where inventories are recognised this is OK, but the INPAG should be remind readers that there are many circumstances where inventories should be valued at nil, and even if there was a previous value, the impairment may well take the value down to nil. This Section thus needs clear cross-referencing to Section 13 – especially G13.5	The Secretariat notes these comments, but is of the view that a cross reference is not required as this Section relates to impairment after inventory has been recognised and NPOs will have used Section 13 for initial recognition.
I believe the requirement can be improved by reference to something along the lines of Australian AASB 102 paragraph Aus 9.2: For many inventories held for distribution, a loss of service potential would be identified and measured based on the existence of a	Paragraph G27.3 allows an NPO to refer to the replacement cost of an item in determining whether there has been a loss of service potential. The Secretariat is of the view that this achieves the same outcome and does not propose to make any changes.

current replacement cost that is lower than the original acquisition cost or other subsequent carrying amount.	
I agree in principles, but it requires a materiality threshold as the cost of measurement of an impairment loss will be very high (NPOs may not have the expertise and the time to do the research for impairment measurement). In our case, most of the NPOs keep inventories for a very short period of time (until distribution) and might not be worth to do the impairment assessment and measurement at the reporting date. Inventories are generally representing the small percentages of most NPOs assets.	The Secretariat notes the feedback on materiality thresholds. Applying materiality and access to current information is expected to reduce the cost of application. The Secretariat is proposing to introduce additional guidance on materiality to Section 2, but does not plan to introduce a threshold, given the challenges of creating a threshold that could be applied internationally.
Yes, it should be assessed at each reporting date whether any inventories are impaired; and adjusted. When it is not material, narration could be sufficed.	The Secretariat is of the view that narration is not required where impairments are not material, but NPOs may add this if the information is useful to the users of its general purpose financial report.
I agree even though it might not be applicable for small NPOs	Section 27 will apply to all NPOs, but does not need to apply where assets held are immaterial.
Comments from those that disagreed	
No. My opinion would be to retain at cost and only eliminate if the inventory cannot be used at all. An NPO objective is not to measure increase or maintaining in value but to provide a service to a beneficiary. An item may have lost value to one individual and yet very valuable to another beneficiary in the location.	The Secretariat is of the view that impairment is necessary to understand the value of an asset at a financial reporting date, which is necessary for faithful representation of an NPO's assets. INPAG allows for measurement to reflect the service potential to beneficiaries.

SMC 8 b) Do you agree that the term operating unit better reflects the nature of an NPO's operations and with its proposed definition?

Feedback	Secretariat's response
Comments from those that agreed	
Yes, I agree. I suggest expanding the indications of possible impairment in G27.9 to include indications of impairment arising from a loss of service potential.	Loss of service potential was intended to be captured in G27.9 b), which refers to an adverse effect on service delivery. It is referred to in G27.16, which sets out the elements to be considered in as asset's value. The Secretarial will explicitly refer to service potential in G27.9 b).

I agree that the term "operating unit" is the most appropriate term. It is a broader and more flexible term than "cash-generating unit", which is more appropriate for business enterprises.	The Secretariat notes this response.
Comments from those that disagreed	
No – this is a very unhelpful term. To most people 'operating unit' would mean a department or section of an NPO providing a specific services or operating in a specific geographical area. (So the glossary needs amending.) I suggest just referring to collections of 'similar assets'.	The Secretariat notes this feedback and acknowledges its potential interpretation. The use of 'operating unit' had strong support and the Secretariat is of the view that its definition provides sufficient clarity to mitigate the risk of misinterpretation.
Comments from those that neither agreed nor disagreed	
The definition given appears to be a variation on the IFRS approach of cash generating units which is all about cash-flows and implicitly the capability to generate a return to the providers of capital. …… The context is important here because an NPO's operational activities might not be always intended to generate cash-flows. To fully reflect all NPOs a reference to service potential should be added as an alternative approach or one blended with cash-flows in order to identify any impairment.	The Secretariat agrees that references to service potential are needed as an NPO's operational activities might not always be focused on cash generation. The Secretariat is of the view that this is addressed in G27.15 and G27.16.

8 c) Do you agree that impairments to assets that form an operating unit can take account of other economic benefits and service potential?

Feedback	Secretariat's response
Comments from those that agreed	
Yes, I agree that impairments to assets that form an operating unit can take place. This approach ensures that NPOs can accurately reflect the value of their assets in financial reports, particularly when the service potential of these assets has diminished	The Secretariat notes this response.
Yes. The difficulty in applying the guidance will be increased if your equipment generates services and not cash flows and cannot be sold or purchased on an external market. Might consider adding examples in the guidance.	The Secretariat does not propose to add examples at this point. Once this Section has been fully reviewed, the Secretariat will consider the addition of examples.
It is odd to apply net present value calculations as an aspect of value in use to	The Secretariat notes the support for the inclusion of service potential. It acknowledges

service potential where there is an absence of cash-flows- a different NPO specific measure is required in respect of service potential. Otherwise the reference to service potential as a consideration is welcome and appropriate. The reference to economic benefits is right where assets are held to generate cash-flows (a return).	that INPAG does not currently include more detailed guidance to support the application of service potential. This will be addressed in subsequent editions of INPAG. References will be made to the guidance on service potential available in section 7 of the IPSASB Conceptual Framework.
We agree. However, we propose that additional guidance be provided on how service potential should be measured or quantified, ensuring consistency and clarity in applying this principle across different NPOs.	The Secretariat acknowledges that INPAG does not currently include more detailed guidance to support its application. This will be addressed in subsequent editions of INPAG. References will be made to the guidance on service potential available in section 7 of the IPSASB Conceptual Framework.
Proposal to amend section G27.15 (b) estimating the economic benefit or service potential the NPO expects to derive from the asset, which in the case of an NPO would be the net funds, grants it would receive and use in the future years	The Secretariat notes the additional clarification proposed. This will be considered when work has been carried out to develop additional guidance to support the application of service potential. This will ensure consistency through INPAG.
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	The Secretariat acknowledges that estimating economic benefit or service potential requires judgement and/or be challenging. Section 10 *Accounting policies, estimates and errors* requires that significant judgements and accounting policies are disclosed.
Comments from those that disagreed	
There is a huge problem around seeking to value NPO assets on the basis of future cashflows and other economic benefits are similarly very hard to measure for most NPOs. So, in practice, I anticipate very few NPOs will be in a position to apply this approach. ….. And trying to estimate the value of future grant aid linked specifically to the asset is very challenging.	INPAG does not currently include detailed guidance to support its application of value in use, including service potential. This will be addressed in subsequent editions of INPAG.
Comments from those that neither agreed nor disagreed	
A depreciation in asset value will affect the economic benefits of the asset and threaten to undermine services. However, in Indonesian religious social institutions, waqf assets cannot be transferred unless they are used for purposes in accordance with the general spatial plan.	The Secretariat notes these comments. The impairment requirements are not intended to reflect any transfer of capacity, but to reflect the remaining capacity of the assets held.

Extracts from the responses to SMC 9

SMC 9a) 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?

Feedback	Secretariat's response
Comments from those that agreed	
Feedback we gathered for local consultations identified that business combinations in the NFP sector are complex and differ from the for-profit sector, with challenges being associated with the identification of acquirers, fair value and assessment of control. We therefore welcome the additional guidance that has been included in the ED to support these issues.	The Secretariat notes this feedback.
I agree the term business can be used (as it is in Australia when applied to NPOs under AASB 3.NPOs often have issues in relation to how power is exercised (often via agreements rather than shares). The Australian AASB 3 has additional NFP guidance for NPOs.	The Secretariat notes this feedback.
Yes, I agree. The expanded definition of "business" is practical for NPOs, as many organizations engage in activities that resemble business operations in their complexity and scale. Including examples of control helps clarify how NPOs should approach combinations, particularly in mergers or acquisitions involving significant assets or operations.	The Secretariat notes this feedback
I agree in general terms. The practical challenges will be measurement of any good will, if any, when there is no considerations paid by the NPOs in exchange for the receipt of the business unit (example, transfer of a school it used to be run by government, or a private company to an NPO as a grant). As per G19.4 (f), there will be an agreement for transfer.	The Secretariat notes this feedback. The Secretariat will review the accounting for NPOs that combine, including for no consideration in a future edition of INPAG. This will consider the measurement of and accounting for goodwill.
…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 …'	The Secretariat notes the suggestion in i), but as this is the current wording from the *IFRS for SMEs* Accounting Standard and this Section has not been fully reviewed, it does not propose to make any changes.

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?	The Secretariat agrees that the cross reference between these paragraphs will assist. The paragraph numbering will be addressed in the final document.
Comments from those that disagreed	
I disagree with the use of "business". Business generally connotes activities that are driven by profit motives. In the case of NPOs when there is a combination or merger the overriding objective is always social and therefore use of business can be misleading. This even becomes important when one considers countries, like Nigeria, where the laws on NPOs are not well developed. The use of "business" could create more confusion in the minds of the regulators.	The Secretariat acknowledges that use of the term 'business' could be confusing. The Secretariat has broadened the scope of 'business' in its definition to include the activities of an NPO. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the Technical Advisory Group (TAG).
No. NPOs do not carry out "business" and "business combinations" among them are not common. Perhaps consider using the term 'mergers' to describe the rare instances that they may combine their operations and provide simplified guidance on the accounting treatment. Consider including guidance under specialized activities.	The Secretariat notes the feedback. It does not, however, have information about the frequency of circumstances where NPOs combine with other entities or NPOs. The Secretariat proposes to review this topic for a future edition of INPAG.
The term business is unhelpful as it is closely associated with generating a return to the providers of capital. A better term might be operational combination or combined operation/ activity…. It is true there may be acquisitions where equity can be traded but more often these combinations will be rescues (a struggling NPO combines with a more resilient NPO), mergers (two NPO's with a common mission decide to combine to reap	The Secretariat acknowledges that use of the term 'business' could be unhelpful. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG. The Secretariat notes the feedback on merger accounting, which will be included in a full review of this topic area. The Secretariat

gains in efficiency and effectiveness) or by legal requirement (Government influenced NPO's combine to comply with a political directive) rather than commercial acquisitions, whether contested or uncontested. In many instances an NPO does not buy another rather the operating Board of the combining NPO is dissolved in favour of new governance arrangements. In the UK, the Charities SORP permits an alternative of merger accounting for many combinations- see paragraph 24.30.	proposes to review this topic for a future edition of INPAG.
No – I do not think the term 'business' is appropriate except when applied to a commercial trading entity established to generate funds for an NPO. 'organisation' and 'organisational combination' is more appropriate for INPAG. I suggest also…, seeking to assign a value to goodwill is rarely appropriate in an NPO context. Please remove references to 'equity interests' as there will hardly ever be any material equity interests in an NPO combination. I also reject the proposal that all combinations should be accounted for by the acquisition method. Most NPO mergers involve one entity winding up and transferring its assets and activities to another NPO as a gift (or grant) – so there is generally no consideration to recognise under G19.26. So in most cases, I suggest the assets (net of liabilities) that are transferred should be recognised as a capital grant to the receiving NPO in accordance with AG23.46 (though further clarification of combinations is needed and in general the value of assets transferred through the combination will need to be shown as an extraordinary item, separate from the normal revenue on the Statement of Income and Expenses). Nevertheless, the principles in Section 19 for valuing assets and liabilities transferred is appropriate. I suggest the acquisition approach should only be used when an NPO acquires a commercial entity or where the receiving NPO pays significant consideration to those formerly in control of the transferring entity.	The Secretariat acknowledges that use of the term 'business' could be unhelpful. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG. The Secretariat notes the feedback on merger accounting, which will be included in a full review of this topic area. The Secretariat proposes to review this topic for a future edition of INPAG.

I do not agree. I prefer that it be called an entity and that the meaning and examples of economic and social control be specified.	The Section has been broadened to include control other than through share holding. The application of control in an NPO context is considered in Section 9 *Consolidated and separate financial statements* and the Secretariat does not propose any further guidance. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG.
It is true that a combination of entities could be with businesses as well as with NPOs. However, the term 'business' is not suitable for NPO accounting guidance. It shows that the reporting NPO will be in combination with only businesses. We propose to replace the term 'Business Combination' to 'Combination of Entities', and replacing Businesses with 'Businesses or Combining Entities' for the whole section 19	The Secretariat acknowledges that use of the term 'business' could be unhelpful. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG.
No. If any amendments to the regulatory frameworks expand the definition or examples of control, NPOs may need to assess how these changes affect their operations and reporting requirements. This could include governance structures, financial management practices, and the classification of activities. As these are NPOs, the term 'business' may not apply.	The Secretariat notes this concern. The use of the term 'business' has a specific application within INPAG and it is not proposed to call NPOs 'businesses'. However, other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG.
I am concerned that the term 'business' could cause confusion between NPOs and commercial organisations. I would therefore prefer a more neutral term, such as 'entity'. In addition, I have the following questions and comments: Does the term "equity instruments" in G19.59(b) include any claims against equity? I suggest expanding the definition of 'output' in G19.1(c) to include any other activity or result that may support the goals of the NPO. In G19.19(c), I also recommend replacing the comma between "beneficiaries" and "customers" with "and/or". There are typos in the paragraph numbering on page 79; there are two sets of paragraphs numbered G19.2. An example of the concentration test (G19.2-3) would be very helpful.	The Secretariat acknowledges that use of the term 'business' could cause confusion. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG. The Secretariat presumes that the reference to G19.59(b) is to G19.5 (b). Any claims against equity would be separate to the equity instrument. The Secretariat agrees to expand the definition of output as suggested in AG19.1 (c), but the other suggestion is not consistent with the formulation of this point. The typos identified will be addressed in the final draft. The Secretariat notes the suggestion of an example of the concentration test, which it will consider for future editions of INPAG.

Comments from that that neither agreed nor disagreed	
The term "business" can be construed as applying exclusively to commercial, for profit entities but can equally be applied to NPO's, A more appropriate term may be "organisation" or "entity group".	The Secretariat acknowledges broad use of the term 'business'. Other respondents to the Exposure Draft have suggested alternative terms, which will be considered by the TAG.
In Indonesia, only waqf institutions can run a business. There are still differences of opinion regarding productive zakat.	The Secretariat notes this feedback.

SMC 9b) 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?

Feedback	Secretariat's response
Comments from those that agreed	
Yes, and further recommend that clarity is given for the circumstances: (a) Where an NPO is viewed for accounting purposes as a subsidiary because it is being 'controlled' by another entity through some level of arrangements; AND (b) Where there is an NPO merger that is where two or more NPOs come together in partnership for the mutual sharing of risks and benefits, usually through the creation of a new NPO, with no NPO obtaining control over any other per se, or is otherwise seen to be dominant. Para G19.24 only precludes the use of certain requirements for instances where two or more NPOs combine with positive net assets.	The Secretariat notes this feedback. The Secretariat will review these NPO specific circumstances including where NPOs combine, including for no consideration in a future edition of INPAG.
I agree with the proposed exemption, but it's crucial to ensure that the NPO does not have liabilities exceeding its assets and that there is no deficit in net assets during the merger. Typically, non-profit organizations may receive interest-free loans from financial institutions to maintain cash flow for donor-committed activities and investments. Proper management of these financial aspects is essential to ensure a smooth and successful merger process.	The Secretariat notes this feedback. This will be considered further when this topic if fully reviewed in a future edition of INPAG.
Comments from those that disagreed	
Response b) I do not agree with this exemption. Practical and accounting issues that could arise include: Difficulty in determining when the exemption should be	The Secretariat notes this feedback. The Secretariat is of the view that circumstances in which this exemption can be applied is clear and its application is not expected to

applied; Possible inconsistency in the application of the guidance and Possible problems with accounting for goodwill.	lead to inconsistencies. The Secretariat acknowledges that further guidance is needed on the treatment of goodwill, which will be considered in a future INPAG edition.
Comment from those that neither agreed nor disagreed	
The specific issue for comment is difficult to interpret. Based on our understanding, we believe the issue for comment is what occurs when there is negative goodwill. We believe that negative goodwill should be used to reduce the asset/equity value.	The Secretariat recognises that not all respondents will have encountered the combination of two NPOs with positive net assets. The existence of goodwill will be dependent on the transaction. This topic will be looked at for a future edition of INPAG, where additional guidance will be provided.

Extracts from the responses to SMC 10

SMC 10a) Do you agree that no further alignment changes are needed to: (i) Section 14 - Investment in associates, (ii) Section 15 - Joint arrangements, and (iii) Section 20 - Leases.

Feedback	Secretariat's response
Comments from those that agreed	
Yes, I agree that no further alignment changes are necessary for these sections. The guidance provided is comprehensive and applicable to the NPO context, ensuring that financial arrangements are accurately reflected in NPO financial statements.	The Secretariat notes this feedback.
In Australia, under AASB 16 we have included an option for NPOs to measure leased assets and liabilities (by class) for concessionary leases (significantly below-market terms and conditions principally to enable the entity to further its objectives). Many NPOs wish to retain the cost method. AASB 16 has extra disclosures for NPOs using leases under concessionary leases. I offer this for your information, and am not recommending such disclosures.	This feedback will be considered in future discussions regarding lease accounting for NPOs, particularly concerning the treatment of concessionary leases.
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'	The Secretariat agrees that educational materials could support good practice and will consider this as part of future resource development. For Section 20, the Secretariat will continue to monitor developments in IFRS for SMEs and the IASB's Post-Implementation Review of

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.	IFRS 16 Leases, assessing whether further guidance should be considered when this section is fully reviewed in future INPAG editions.
Yes, as the financial statements and their notes are presented, they should continue to be reviewed and updated according to the needs of the jurisdictions.	The Secretariat agrees that financial statements and accompanying notes should continue to be monitored and updated to reflect jurisdictional requirements and evolving reporting needs.
Comments from those that disagreed	
Section 14: The title of the section can be changed to 'Associate Accounting' Reason: The associate of an NPO could be both commercial or another NPO. In the case of NPO, it's unlikely that there is involvement of investment. Most of the time the significant influence will become effective due to influence in the board not because of investing money of more than 20% of total shares. The words investment and returns are not suitable for NPOs. Investing NPO to be replaced with reporting NPO. Reason: Sometimes the relationship is not about investment or commercial activities. Significant influence might be due to common board members.....	The Secretariat notes this feedback. This terminology was considered by TAG members and pending a full review of this Section, the consensus was to retain the existing terminology to avoid unintended consequences.
Concessionary leases: As noted in our comments on the fair value section, feedback we received for local consultations on similar reporting frameworks indicate that concessionary leases are a problematic area. Therefore, we recommend including guidance on valuing concessionary leases as a temporary measure until such time as the fair value chapter is comprehensively reviewed.	The Secretariat recognises the complexities associated with concessionary leases, as noted in the Basis for Conclusions. The Secretariat will consider this feedback as part of the review of this issue for a future edition of INPAG.

For section 14, I prefer "Beneficial interest in associates"	The Secretariat notes this feedback. This terminology was considered by TAG members and pending a full review of this Section, the consensus was to retain the existing terminology to avoid unintended consequences.
Associates- where the associate itself is an NPO and the interest is to further an investing NPO's mission rather than to generate a financial return perhaps these interests should be separately shown. Joint arrangements- where the joint arrangement comprises an NPO joint venture to which participating NPOs appoint the Board and the interest is to further the mission of participating NPOs rather than to generate a financial return perhaps these interests should be separately shown- this is the approach of the UK Charities SORP- see paragraph 29.11. Leases - fine whilst the operating and financing lease options are available to lessees.	The Secretariat acknowledges the comments on the presentation of associates and joint arrangements when the primary interest is mission-driven rather than financial. This feedback will be considered in the full review of these topics as part of future editions of INPAG. The Secretariat notes feedback on Section 20.

SMC 10b) Is any of the guidance in Section 34 needed by NPOs?

Feedback	**Secretariat's response**
Comments from those that agreed	
Not for all NPOs, but additional guidance might be needed for Agriculture, extractive industries and service concessions.	The Secretariat will consider whether supporting material or clarifications are needed in future updates to enhance the application of this guidance.
Yes, NPOs need some of the guidance in Section 34. The items needed are: - Agriculture: Accounting for biological assets, especially producing plants, requires additional guidance. - Exploration and evaluation of mineral resources: specific guidance is needed to address costs related to exploration and evaluation of mineral resources, and to determine when an exploration and evaluation asset should be recognized. - Service concession: There is a need to understand the distinction between financial assets and intangible assets in the context of service concession arrangements.	The Secretariat notes the support for the inclusion of Section 34 the specific areas of focus. This will be considered in subsequent editions of INPAG

It may be relevant to the NPOs to the extent that these are investing or legacy items from donors.	The Secretariat notes the support for the inclusion of Section 34.
Comments from those that disagreed	
These issues will very rarely apply to NPOs and it would be better just to cross-ref to external documentation rather than include this in INPAG	The Secretariat notes this feedback. The majority of respondents to the Exposure Draft identified the need for this Section and on that basis, it will be included and reviewed at a later date.
Agriculture – I do not agree that NPOs should be forced to use fair value for agricultural activities. It is very unusual to have such situations. The examples I have come across include agricultural training colleges. While bearer plants are exempted from using fair value, bearer animals (e.g. cattle) are not. Fair value is often very difficult to determine for partly-owned crops and for animals. Given that many crops etc. are short-term, there seems to be little need for fair value at end of the year, when the crop is sold the next financial year. I believe that the section should be removed, and NPOs use cost. Exploration for and evaluation of mineral resources. I believe that this section should be removed, and NPOs use the usual asset recognition criteria. I cannot recall any NPOs being involved in mining activities. Also, I do not agree with NPOs being given the ability to override the general capitalisation criteria, merely because the costs relate to mining activity. Service concession arrangements. The possibility that an arrangement might be a service concession arrangement often causes problems as auditors often ask for position papers etc., for what is often a complex topic. In the end, there are very few arrangements where the NPO is an operator. Areas most likely subject to the extra work include social housing. I believe that this section should be removed. In my experience the substantive provisions of the service concession arrangement standard is dealing with what the operator has paid for – which is often	The Secretariat notes the feedback provided. However, the majority of respondents supported the need for guidance on these topics. Until such time as these topics are reviewed, the Secretariat proposed to use the guidance in Section 34 of the *IFRS for SMEs* Accounting Standard. The Secretariat will consider the proposal for the cost-based measurement of agricultural assets when this Section is reviewed.

legally constructing an asset (such as toll road), when for accounting purposes the operator does not have control – so the accounting asset is a right to receive future cash flows from the grantor / government) (the financial asset model), or the right to access the asset (intangible asset model). I cannot recall any service concession arrangements where a private-sector NPO has constructed the asset.	