



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG06-08

25 February 2025 – Virtual

Drafting changes following TAG FG03 – TAG FG05

Summary	This paper summarises the key changes being made to the Guidance in the Sections presented in draft to the September 2024 TAG meeting.
Purpose/Objective of the paper	<p>At the TAG meeting at the end of September 2024, drafts of the final guidance were provided for certain sections of INPAG. There were a number of discussion points for consideration. This paper sets out the key actions that have been taken or are proposed to be taken to address the discussion points raised.</p> <p>This paper gives early sight of proposed amendments and therefore is intended for information only. TAG members are encouraged to raise any points of principle for discussion and to provide the Secretariat with detailed drafting comments.</p>
Other supporting items	n/a
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Actions for this meeting	<u>Provide feedback on any matters of principle.</u>

Technical Advisory Group

Drafting changes following TAG FG03 (part 2)

1. Introduction

- 1.1 At the TAG meeting at the end of September 2024, updated drafts of the following sections were provided:
- Section 1 *NPOs*
 - Section 2 *Concepts and pervasive principles*
 - Section 9 *Consolidated and separate financial statements*
 - Section 11 *Financial instruments*
 - Section 13 *Inventories*
 - Section 21 *Provisions and contingencies*
 - Section 25 *Borrowing costs*
 - Section 26 *Share based payments*
 - Section 28 *Employee benefits*
 - Section 29 *Income Tax*
 - Section 31 *Hyperinflation*
 - Section 32 *Events after the end of the reporting period*
- 1.2 Since then the following updated drafts of sections have been provided for
- Section 12 *Fair value measurement*
 - Section 16 *Investment properties*
 - Section 17 *Property, plant and equipment*
 - Section 18 *Intangible assets other than goodwill*
 - Section 23 *Revenue (authoritative text only)*
 - Section 33 *Related parties*
- 1.3 There were a number of discussion points for consideration, which have either now been addressed or are in the process of being addressed. Annex A sets out the additional matters that have been addressed since the last TAG meeting. Annex B sets out the remaining issues to be addressed.

2. Changes to the guidance

- 2.1 In this paper, changes are proposed to either the core text, Implementation Guidance or the Basis for Conclusions, as a consequence of the feedback from the TAG at its September 2024, December 2024 and January 2025 meetings. The sections that have not been prioritised for review, may also have Application Guidance to assist in the understanding of the application of the core text for NPOs. Specific Implementation Guidance has not been developed for any of these sections, but where it exists in the *IFRS for SMEs* Accounting Standard, it has been updated as appropriate to align with other content in INPAG.

- 2.2 The paragraphs below set out any key points that the TAG should be aware of in the updates to the drafting. These are provided on an exceptional basis only.

Section 12 Fair value measurement

- 2.3 Following the feedback from members, former paragraph AG12.11 has been removed. The text relating to donated assets and fair value of assets with restriction has been reordered within the Application Guidance. With this change AG12.11 is not considered necessary.
- 2.4 Paragraph AG12.9, which is concerned with deemed cost has been reworded to make it less convoluted.
- 2.5 In addition, the Basis for Conclusions has been reordered and updated to take account of these changes and a broader review of the structure of the Basis for Conclusions. A clean version of the updated text is in Annex C.
- 2.6 All of these changes were shared with the TAG members nominated in the meeting on 21 January. One TAG member raised a query about the link between replacement cost and value in use, noting that in their jurisdiction, value in use relies on cashflows. As value in use has a broader definition in Section 2, the Secretariat is of the view that this link is valid.
- 2.7 The Feedback also covered the types of restrictions that an NPO might have relating to an asset, noting that these can be restrictions that would transfer to another buyer or market participant and/or relate specifically to the NPO. An additional sentence has been added to reflect this point.
- 2.8 A final point was regarding the guidance on the utility of an asset to an NPO, given the intention not to depart from the *IFRS for SMEs* standard unnecessarily at this point. The guidance on the utility of assets relates to donated assets. This guidance was included in ED2. Given that this has already been exposed, the Secretariat proposes to continue to include it subject to the redraft in Annex A.

Section 23 Part I Revenue from grants and donations

- 2.9 Wording regarding the NPO having discretion over how resources are used in G23.9 has been replaced with the wording used in Section 2, Concepts and pervasive principles.
- 2.10 The guidance on applying the five-step model to more complex arrangements in G23.69 has been amended to reflect the wording in the Application Guidance, which TAG members considered was easier to follow.
- 2.11 The definition of a delivery obligation (G23.70) has been amended to include the wording previously proposed for Implementation Guidance.

- 2.12 Minor changes to the disclosure requirements have been made as part of the holistic review of disclosure requirements in INPAG.

Section 28 Employee benefits and 33 Related parties

- 2.13 Following feedback from TAG members, paragraph G28.38A has been simplified to remove unnecessary complexity. The revised wording explicitly clarifies that non-executive governing body members are not considered employees for disclosure purposes.
- 2.14 This paragraph adopts a principles-based approach, to support transparency and consistency while allowing NPOs to apply judgment based on their specific circumstances. It introduces greater flexibility, allowing NPOs to determine the most appropriate way to disclose remuneration for individuals who hold both an employee and governance role, recognising that in some cases, separating compensation may not be clearly identifiable.
- 2.15 TAG members queried the use of "arm's length" when referring to donations given by governing body members. The Secretariat had intended the arms-length reference to refer to grants given by governing body members. In response, the text for IG33.8 has been revised to add a reference to grants.

3. Next steps

- 3.1 TAG members are encouraged to raise any matters of principle for discussion with other TAG members. Detailed feedback on the drafting is to be provided separately to the Secretariat and will be used to produce a final draft of each Section.
- 3.2 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 around the end of May, beginning of June 2025.

February 2025

Annex A - Amendments drafted

Nature of amendment	Previous drafting	Updated drafting
Section 13 – Locate the additional application guidance separately	See TAGFG03-	Addressed in TAGFG06-02 <i>Inventories</i>
Section 12 – review the wording of AG12.9 to simplify the sentence.	AG12.9 The application of fair value measurement on the initial recognition of a donated asset shall result in the deemed cost of that asset.	AG12.9 The fair value measurement of a donated asset on initial recognition becomes its deemed cost.
Section 12 – Remove AG12.11 to remove potential confusion unless alternative wording would be more helpful. Minimise any alternative wording and share with Jenny and Freddie	AG12.11 Where an asset can be freely disposed of, it shall be measured at its highest and best use. This shall not take account of any previous restriction. It shall also not take account of any current donor restriction that does not relate to the ongoing use of the asset.	Removed
Section 12 – Clarification of restrictions on assets	AG12.8 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location or technical specification of the asset that is subject to a restriction.	AG12.11 The fair value of an asset that is subject to a restriction shall take account of the service potential of that asset in determining its value. This should take account of the capacity needed to support the delivery of services to beneficiaries rather than, for example, the location of the asset subject to a restriction or its technical specification, which may exceed the



		<p>capacity needed by the NPO of the asset that is subject to a restriction.</p>
<p>Section 23 Part I – Locate the explanatory text for the delivery obligation back into the core text.</p>	<p>Types of grant revenue</p> <p>G23.41 Delivery obligations arise from grant agreements where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations. An NPO must consider the substance rather than the legal form of a grant agreement or individual delivery obligation in assessing enforceability. A delivery obligation creates a present obligation for the NPO.</p> <p>G23.42 A delivery obligation must specify the separate and distinct:</p> <ul style="list-style-type: none"> (a) outcomes the NPO is expected to achieve; (b) activities that the NPO is required to undertake with the resources; or (c) services, goods and other assets that the NPO will use internally or transfer externally. <p>G23.43 For a grant agreement or delivery obligation to be enforceable, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to make this determination, and any obligations</p>	<p>Types of grant revenue</p> <p>G23.41 Delivery obligations arise from grant agreements where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations. An NPO must consider the substance rather than the legal form of a grant agreement or individual delivery obligation in assessing enforceability. A delivery obligation creates a present obligation for the NPO.</p> <p>G23.42 A delivery obligation must specify the separate and distinct:</p> <ul style="list-style-type: none"> (a) outcomes the NPO is expected to achieve; (b) activities that the NPO is required to undertake with the resources; or (c) services, goods and other assets that the NPO will use internally or transfer externally. <p>G23.43 For a grant agreement or delivery obligation to be enforceable, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to</p>



	<p>within the grant agreement will not be delivery obligations.</p> <p>Step 1 – Identifying a grant agreement with delivery obligations</p> <p>G23.70 An NPO will have completed this step by applying paragraphs Error! Reference source not found. to identify a grant agreement and determine that the agreement includes one or more delivery obligations.</p> <p>Step 2 – Identifying delivery obligations in a grant agreement</p> <p>G23.71 A delivery obligation is a grant recipient's separately identifiable undertaking in a grant agreement to achieve a specified outcome, to carry out a specified activity, or to use or transfer distinct services, goods or other assets.</p>	<p>make this determination, and any obligations within the grant agreement will not be delivery obligations.</p> <p>Step 1 – Identifying a grant agreement with delivery obligations</p> <p>G23.70 An NPO will have completed this step by applying paragraphs Error! Reference source not found. to identify a grant agreement and determine that the agreement includes one or more delivery obligations. A delivery obligation is a grant recipient's separately identifiable undertaking in a grant agreement to achieve a specified outcome, to carry out a specified activity, or to use or transfer distinct services, goods or other assets. Delivery obligations specified in the grant agreement must be:</p> <ul style="list-style-type: none">(a) clearly defined;(b) enforceable (that is, consequences or remedies associated with non-delivery must be enforceable by legal or equivalent means); and(c) capable of being measured (that is, the achievement or progress towards achievement of delivery obligations must be capable of being measured). <p>Services, goods or other assets specified as delivery obligations may be used internally for a specified purpose or may be transferred to one or more service recipients.</p>
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<p>Section 23 Part I – Clarify how operational approvals in grant arrangements affect the economic substance of a grant.</p>	<p>G23.9 Where, an NPO receives resources to support its provision of services, and:</p> <ul style="list-style-type: none"> • it has control of the economic resources transferred because it has discretion over how the resources are utilised without requiring further authorisation from the grant provider; and • the grant provider does not receive directly cash, a service, good or other asset in return by NPO; <p>the economic substance of this transaction means that the NPO applies Part I for accounting for revenue from grants, donations and similar transfers.</p>	<p>G23.9 Where an NPO receives resources to support its provision of services, and:</p> <ul style="list-style-type: none"> • it has control of the economic resources transferred because it has the present ability to direct the use of the resource has discretion over how the resources are utilised without requiring further authorisation from the grant provider; and • the grant provider does not receive directly cash, a service, good or other asset in return by NPO; <p>the economic substance of this transaction means that the NPO applies Part I for accounting for revenue from grants, donations and similar transfers.</p>
<p>Section 23 – Part I – Update G23.69 using the wording in AG23.1</p>	<p>G23.69 An NPO shall apply the 5 step model set out in paragraph Error! Reference source not found. Part I provides guidance on common NPO transactions. Part II provides guidance that can be used for more complex, less common transactions. Paragraphs Error! Reference source not found.–Error! Reference source not found. set out how Part II is to be applied.</p>	<p>G23.69 An NPO shall apply the 5 step model set out in paragraph Error! Reference source not found. Part I provides guidance on common NPO transactions. Part II provides guidance that can be used for more complex, less common transactions.–Part I specifies the requirements for a simplified version of the 5 step model that is expected to apply to most delivery obligations. When a delivery obligation includes more complex arrangements, the NPO shall apply the relevant guidance from Part II. Paragraphs Error! Reference source not found.–Error! Reference source not found. set out how Part II is to be applied.</p>



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<p>Section 28 – Guidance amended to reflect TAG members’ advice on clarity and principles-based approach.</p>	<p>G28.38A Members of the NPO’s governing body are not considered employees for the purposes of this disclosure and their personnel compensation and expenses are to be disclosed in accordance with paragraph G33.7.</p>	<p>G28.398A Non-executive members of the NPO’s governing body are not considered employees for the purposes of this disclosure and their personnel compensation and expenses are to be disclosed in accordance with paragraph G33.7.</p> <p>G28.40 Where a non-executive governing body member is also an employee of the NPO, their total remuneration shall be distinguished between compensation for their employee role and their governance role, where these can be separated. Employee compensation and benefits shall be disclosed in accordance with paragraph G28.38. Any additional compensation related to governing body member shall be disclosed separately under paragraph G33.9(b).</p> <p>G28.41 Executive members of the NPO’s governing body shall be disclosed as employees and follow the disclosures in G28.38. The names of executive member of the NPO’s governing body shall be disclosed unless already disclosed in accordance with another INPAG requirement.</p>
<p>Section 28 – New proposed text for the Basis for Conclusions to</p>	<p>New addition – no prior text available.</p>	<p>BC28.15 Respondent to ED3 requested clarity over the proposals for the disclosure of employee benefits relating to governing body members. The original wording broadly stated that all</p>



<p>reflect the principles-based approach, focusing on the underlying intent of disclosure requirements rather than creating overly prescriptive rules.</p>		<p>governing body members were not considered employees for disclosure purposes. Respondents were concerned that this could lead to ambiguity, particularly for those who also hold an executive role within the NPO. The disclosure requirements in paragraph were revised to distinguish between non-executive governing body members and executive governing body members to ensure that executive members who also serve on the governing body are still classified as employees for remuneration disclosure. Additionally, the revised guidance clarifies that where a governing body member also holds an employee role, their total remuneration should be separated between employee compensation (disclosed under G28.38) and governance-related compensation (disclosed under G33.9(b)).</p>
<p>Section 33 - Implementation guidance revised to remove reference to arm's length for donations, focusing instead on grants where conditions may influence the NPO's activities or confer a commercial benefit.</p>	<p>TAGFG05-03: IG 33.8 Where a governing body member makes a donation, it must be disclosed if it is material. This is the case even if it is at arms'-length and does not require changes to the NPO's usual operations.</p>	<p>IG 33.8 Where a governing body member makes a grant or donation, it must be disclosed if it is material. This is the case even if the grant is at arms'-length and does not require changes to the NPO's usual operations.</p>

Annex B – Amendments yet to be drafted

Section impacted	Nature of amendment
Section 9 – Consolidated and separate financial statements	Separate the application guidance from the core guidance.
Section 9 – Consolidated and separate financial statements	Update the rebuttable presumption once the text of the <i>IFRS for SMEs</i> Accounting Standard has been finalised.
Section 9 – Consolidated and separate financial statements	Remove the definition of controlling entity.
Section 33 – Related parties	Revise the wording relating to remuneration disclosures taking a principles-based approach to simplify guidance for situations where a governing body member also has an executive role.
Section 33 – Related parties	Explain in the Basis for Conclusions the principles-based approach to disclosures related to employees, including those who also serve as governing body members and those who are only governing body members.

Annex C – Section 12 Basis for Conclusions (extract)

Application Guidance

Fair value of donated assets

BC12.8 The *IFRS for SMEs* Accounting Standard does not specifically consider when fair value **is can be used to create** the deemed cost of a donated asset on initial recognition. The existing guidance can, however, be applied to the subsequent measurement of such assets. TAG members discussed the importance of the concept of service potential for NPOs and the need for additional guidance. It was acknowledged that given the scope of the topics included in this phase of INPAG that there would be limitations on the guidance available to assist in applying this concept. Topics related to measurement will be considered in a future phase of INPAG development.

BC12.9 **Following the responses to ED3, clarifications were also made to confirm that donated assets could be part of assets held at all levels of the fair value hierarchy. This reflects that the fair value measurement of a donated asset can be made with reference to both observable and unobservable inputs.**

BC12.10 Recognising potential challenges in applying fair value measurement to donated items the application guidance requires the use of 'replacement cost' where determining a fair value is impractical. Replacement cost has been defined as the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries. This approach was taken to arrive at the value of an equivalent item in local use, consistent with the principle of 'value in use' set out in Section 2.

BC12.11 The Application Guidance allows the cost to the donor to be used as the fair value of a donated item where this is known or relevant. This has been included to reduce burdens on NPOs to determine a fair value. It is expected that this approach will provide a reasonable estimate of fair value. Respondents to ED3 suggested that this be expanded to include the carrying amount of the asset provided by the donor where the historic cost to the donor is not appropriate or known. The Secretariat supported the inclusion of this amendment for the same reasons as cost is permitted, but will keep this under review to ensure that it is both useful and does not result in unintended consequences.

Fair value of restricted use assets

BC12.12 TAG members discussed the distinction between the fair value measurement of donated assets that can only be used by the NPO for a specific purpose and those donated assets that have no restrictions and could be sold. TAG members were of the view that if a donated asset can be sold, its fair value should be its open market value, but that if it cannot be sold its fair value should be determined with reference to its service potential. The Secretariat agreed with this view and these distinctions are made in the Application Guidance.



BC12.13 The Application Guidance to Section 12 therefore provides adaptations for NPOs that recognises differences from different types of donated assets. For example, donated assets may have a specification that is greater than an NPO would otherwise have purchased and that is greater than the operating requirement. INPAG allows such assets to be valued with reference to their value to the NPO (their service potential) rather than with reference to observable inputs.

BC12.14 Respondents to Exposure Draft 3 raised questions about the interplay between market valuations (particularly with reference to restriction outlined in paragraph G12.15), the fair value of assets held for their service potential and the measurement of assets that have a restriction where the nature of the restriction does not prevent the sale of the asset. Having considered these responses the Secretariat remained of the view that separating the fair value measurement of assets that can be sold from those that cannot be sold remains valid. To provide further clarity the Secretariat amended the drafting of the related paragraphs.