



Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGFG05-02

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Expenses Classification and Fundraising Costs – Response to ED3

Summary	<p>This paper provides TAG members with:</p> <ul style="list-style-type: none">• a summary of the responses to the specific matters to comment (SMCs) for issues relating to Section 24 Part II <i>Expenses Classification</i> and Part III <i>Fundraising Costs</i>• the Secretariat's views on those issues, and• suggested approaches for the final guidance.
Purpose/Objective of the paper	<p>The purpose of this paper is to provide a detailed analysis of the responses to Section 24 Parts II and III. It seeks the views of TAG members on suggested approaches to the final guidance based on respondents' views and feedback on specific proposals.</p>
Other supporting items	
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Actions for this meeting	<p>Comment on:</p> <ul style="list-style-type: none">• whether the rebuttable presumption should be retained for expenses classification;• the location of the expenses classification analysis;• disclosures of volunteer benefits and governing body members;• whether the three categories of fundraising costs should be retained.

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Expenses Classification and Fundraising Costs – Response to ED3

1. Introduction

- 1.1 This paper provides:
- a summary of the responses to the specific matters to comment (SMCs) for issues relating to section 24 Part II *Expenses Classification* and Part II *Fundraising Costs* – see Appendix A;
 - the Secretariat's views on those issues; and
 - suggested approaches for the final guidance.

2. Background

- 2.1 Section 24 Part II is a new section in INPAG. It specifies the requirements for an analysis of expenses. Section 24 Part II requires an NPO to provide an analysis of expenses using a classification based on either the nature of expenses, the function of expenses within the NPO, or a mixed presentation, whichever provides information that is more relevant and reliable to the users of the financial statements.
- 2.2 Section 24 Part II includes a rebuttable presumption that a nature of expenses classification provides most relevant and reliable information to users.
- 2.3 Part II also provides principles based guidance on the allocation of expenses to activities under a by function or a mixed presentation analysis, including the treatment of shared or support costs.
- 2.4 Whichever expense analysis permissible under Part II of Section 24 is adopted by an NPO, Part III of Section 24 requires that fundraising costs are separately calculated and disclosed either in the Statement of Income and Expenses or the notes to the financial statements.
- 2.5 INPAG describes three distinct categories of fundraising activities:
- donations, gifts, grants and similar transfers;
 - commercial and trading; and
 - investment management.

- 2.6 For expenses that are incurred for more than one purpose, for example, fundraising while also raising awareness of the activities of the NPO, INPAG requires that these are split. Where splitting the costs would result in undue cost or effort NPOs may consider all such costs as either relating to fundraising or to another activity depending on what is the primary purpose of the activity.
- 2.7 A survey was carried out that considered some of the reporting issues that related to both Parts II and III of Section 24. These have been incorporated into the analysis of responses where relevant.

3. Rebuttable Presumption

- 3.1 For SMC2(a) seventy-eight percent of respondents agreed that a rebuttable presumption by nature is used to classify expenses unless this doesn't provide the most relevant and reliable information to the users of the financial statements. Ten percent disagreed and twelve percent neither agreed nor disagreed. Thirteen respondents did not answer this SMC.
- 3.2 In addition, ninety-four percent of 126 respondents to the survey were of the view that the rebuttable presumption on expenses classification was either important or somewhat important.
- 3.3 Responses to this SMC focussed both on whether a rebuttable presumption should be used, and which form of expenses classification provides reliable and more relevant information for the users of NPO financial statements.
- 3.4 The respondents that supported the approach in INPAG Section 24 Part II that a by nature expense classification was a reliable and more relevant presentation commented that it:
- provides a clearer, more straightforward and accessible view for the users of NPO financial statements which reduces complexity and improves accountability;
 - presents the information in a consistent and comparable way;
 - reduces the risk of arbitrary allocations used in functional classifications, which they considered would not provide a faithful representation; and
 - is easier for smaller NPOs to implement.
- A respondent also commented that it was a pragmatic approach.
- 3.5 Several respondents that disagreed favoured classification by function or a mixed presentation commenting:

- classification by function may be more relevant for NPOs as most NPO operations are activity based;
- presentation of expenses 'by nature' does not align well with INPAG's proposals for fund accounting, which appear to be based on the principles of activity reporting (note that a counter was given to this by a respondent who commented that classification by nature makes more sense when combined with the fund accounting methodology);
- most NPO programmes and/or projects are largely designed using an approach which allows for objectives, activities, inputs, outputs and outcomes. Budgeting for the activities is based on the inputs required which can be analysed with classification of expenses using the mixed approach.

Respondents also commented that the flexibility to use a functional classification should be encouraged if it provides more relevant insights, particularly for larger organisations with varied activities.

- 3.6 Three respondents suggested that INPAG should include a matrix presentation approach showing expenses analysed by nature and function. Two respondents were of the view that a matrix presentation is not too complex and was informative for users who are interested in either or both. One respondent was of the view that a mixed presentation would be in accordance with a jurisdictional GAAP.
- 3.7 The Secretariat agrees that a by function or mixed presentation (including in the format of a matrix analysis) can provide more useful information to users of the financial statements. A by function analysis may be more akin to how NPOs operate to support service recipients or to deliver their missions in accordance with funders requirements. For this reason, INPAG permits the use of a functional analysis.
- 3.8 However, a by function analysis requires substantial judgement by NPOs both to identify the key activities and allocation of costs across those activities. Analysis by function may be resource intensive, require sophisticated judgements and accounting systems and not accord with the needs of governance bodies. In addition, the various operating frameworks, environments and contexts in which NPOs operate will mean that a by function analysis could be diverse which would not allow for comparability and may not be useful for some groups of NPOs.
- 3.9 A few respondents were concerned about or disagreed with the use of the rebuttable presumption itself. A respondent commented that both IAS 1 *Presentation of Financial Statements* and IFRS 18 *Presentation and Disclosure in Financial Statements* did not contain a rebuttable presumption (noting that the

IFRS for SMEs Accounting Standard was based on IAS 1). The respondent commented IAS 1 requires that management select the presentation that is reliable and more relevant, without prescribing a default position. Another respondent remarked on the differences between the approach in INPAG and in IAS 1 and IFRS 18.

- 3.10 One of the respondents that commented on the departure from IFRS 18, and IAS 1 noted that there is a potential risk that some NPOs may apply a ‘by nature’ analysis without considering whether the presentation meets the needs of the users of its financial statements.
- 3.11 A respondent considered that they preferred a softer set of arrangements that meant NPOs could present a mix of expenses without having to address a rebuttable presumption. They raised the concern that comparability may trump the notion of faithful representation. The Secretariat agrees that there is a risk about consistency appearing to “trump” relevant information but considers that if the guidance is clear that users’ needs must be considered in rebutting the presumption then this will mitigate against this risk.
- 3.12 The Basis for Conclusions argues that a single method of expense classification should be promoted. A rebuttable presumption to produce an analysis by nature was proposed in ED3 to provide a steer, particularly for smaller NPOs. TAG members’ views were that accounting software generally provides this information. It presumes that the more relevant and reliable information for users is usually provided by nature. This proposal was intended to reduce the burden on preparers.
- 3.13 The rebuttable presumption may encourage a by nature analysis but NPOs will require an analysis of users’ needs to make decisions about whether the presumption should be rebutted. Consequently, there may not be a significant reduction to the effort in determining the most relevant and reliable classification of expenses, but this was not the main driver for the proposal. The presumption also creates a risk that this is perceived by stakeholders to be a default position, with no consideration of users’ needs.
- 3.14 The Secretariat considers that there are arguments (many of which have been put forward by respondents) for allowing NPOs to make their own decisions about which form of classification they should present based on which they consider is most useful to the users of the financial statements.

- 3.15 The Secretariat proposes to make clearer in Section 24 Part II that the NPO may presume that for reporting the classification of expenses that a by nature analysis provides reliable and more relevant information unless it has evidence that rebuts the presumption that a by function or mixed presentation classification is reliable and more relevant.
- 3.16 Clarification will also be provided that the rebuttable presumption is not the prescribed method and that NPOs will have to assess user needs to decide whether the presumption should be rebutted. The Secretariat considers that this latter point could be set out in the Implementation Guidance and/or the Basis for Conclusions.
- 3.17 Responses across several of the SMCs raised concerns that the requirement to calculate fundraising costs requires NPOs to present a functional presentation for part of their expenses, which may not be reconcilable to the total.
- 3.18 The Secretariat agrees that reporting fundraising costs may require a by function presentation of some of the expenses incurred by NPOs. However, although the total for fundraising costs must be able to be evidenced, Section 24 Part III does not require reconciliation of these to the total expenses reported by nature.
- 3.19 A respondent was of the view that it may be unclear what the Statement of Income and Expenses (SOIE) will look like, wondering whether it was possible to present a SOIE does not provide an analysis of expenses. This respondent noted that the reporting of fundraising costs may further reduce clarity.
- 3.20 The same respondent commented that paragraph G24.43 states that the analysis of expenses must be presented in the SOIE or in the notes to the financial statements and was of the view that this optionality, on top of the optionality over the basis used to analyse the expenses, may significantly reduce comparability between NPOs, which may not be helpful for users.
- 3.21 The optionality over the location of the classification of expenses is consistent with the IFRS for SMEs Accounting Standard, which permits this to be on the face of the Statement of Income and Expenses or in the notes to the financial statements.
- 3.22 There were several detailed technical responses and drafting comments analysed in Appendix B including:

- whether a minimum by nature analysis should be provided where a functional analysis is used;
 - disclosure of employee benefits, depreciation etc (note this issue is also considered in Section 5);
 - the understanding of the nature of a rebuttable presumption;
- The Secretariat would welcome TAG's views on these issues.

Question 1: Is TAG content that INPAG maintains the rebuttable presumption that NPO should classify expenses by nature?

Question 2: What are TAG members' views on the optionality for an expense classification to be on the face of the Statement of Income and Expenses or in the notes to the financial statements?

Question 3: Do TAG members concur with the Secretariat's responses to the detailed issues included in Appendix B?

4. Reporting the rationale for classification other than by nature

- 4.1 For SMC2(b) eighty-eight percent of respondents agreed that the rationale for using a classification of expenses other than by nature should be disclosed with six percent disagreeing and six percent neither agreeing nor disagreeing. Twelve respondents did not answer this SMC.
- 4.2 The respondents that agreed variously commented that this ensures transparency and promotes comparability and consistency. It allows users of financial statements to understand why a different approach has been chosen. They expressed the view that it aligns with the relevance and reliability of the information presented, making it easier for users to understand the financial information presented and being useful for decision making.
- 4.3 A respondent that agreed nevertheless commented that they expect that the disclosures published will be "boilerplate", along the lines that expenses have been classified by function because it will provide more useful information. The Secretariat concurs that there is a risk that disclosure of the rationale will become boilerplate. This might be able to be mitigated by relevant commentary in the Implementation Guidance but also by educational materials and training.
- 4.4 A few respondents that disagreed indicated that they instead preferred a by function analysis with one commenting that NPOs in their jurisdiction do not have a defined scope of work from year to year. Comparing expenses by nature across multiple periods does not make sense for any users unless there is an

understanding of the activities performed. A respondent that disagreed noted that they did not disagree with the disclosure requirement but instead questioned both the inclusion of a rebuttable presumption in this instance and the classification by nature approach (see section 3 of this report for the discussion on both of these).

- 4.5 The Secretariat considers that it might be useful to provide the rationale or a description of the decision on classification regardless of which decision has been taken. This would be reported as an accounting policy choice because of the importance of the decisions on classification.

Question 4: Do TAG members agree that INPAG should include the rationale for the NPO's decision on its classification of expenses, whichever classification is used?

5. Quantification of expenses in a by function or mixed presentation analysis

- 5.1 Sixty-six percent of respondents to SMC2(c) agreed that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary. Eighteen percent disagreed and sixteen percent neither agreed nor disagreed. Thirteen respondents did not answer this SMC.
- 5.2 Respondents that agreed commented that this would avoid clutter and complexity without overburdening the financial statements with too much detail. This would reduce the resource burden for NPOs and promote understandability. One respondent commented that the guidance emphasises the importance of providing relevant information in a clear and understandable format without overwhelming the users of the financial statements with unnecessary details.
- 5.3 A respondent that agreed suggested that a requirement to have a schedule "to ventilate" the expenses by nature when using presentation by function could be considered. While other respondents suggested that there should be flexibility and that there should be an option for quantification for those NPOs who are of the view that this would provide better information for users.
- 5.4 The Secretariat is of the view that INPAG does not prohibit additional reporting and that if an NPO considers that quantification by nature is useful where they have presented a by function or mixed presentation then they can add this

information. The Secretariat will clarify this point in the Implementation Guidance.

- 5.5 Comments from respondents that disagreed were either that quantification was important for transparency or argued that they did not agree with a by function or a mixed presentation analysis.
- 5.6 Two respondents suggested that there should be disclosures of certain costs citing the approach in IFRS 18 where the standard requires operating expenses over specific by nature expenses ie employee benefits, depreciation, amortisation, impairment losses and reversals and write-downs and reversals of write-downs of inventories. The Secretariat considers that this information is useful but would note that:
- that disclosure of this information is required by other sections of INPAG;
 - is not required by IFRS for SMEs; and
 - could increase the resource burden for NPOs.
- 5.7 A respondent that disagreed was of the view that narrative disclosures would add length but not insight commenting that a jurisdictional GAAP takes a different approach by requiring disclosure of certain expenses where there is a public interest. What is in the public interest may be challenging to define and compliance may create a significant resource issue for NPOs. The Secretariat does not propose to introduce such a requirement but consider the inclusion of references to information that is in the public interest in the Implementation Guidance.
- 5.8 There were several detailed points from respondents set out in Appendix C. These include:
- possible simplifications (with an example for the reporting of inventories)
 - additional reporting requirements being proposed in application guidance
 - usefulness of additional quantification and its impact on transparency and comparability.

Question 5: Do TAG Members agree that there should be no explicit provisions for the quantification of expenses by nature when an NPO provides expense classification by function or a mixed presentation?

Question 6: Do TAG members agree with the Secretariat's proposed responses in Appendix C?

6. Expense Disclosure Requirements

- 6.1 ED3 included additional disclosure requirements for certain expenses (in addition to expenses classification and fundraising costs) ie:
- short-term employee benefits
 - governing body members – disclosures about their personnel compensation and reimbursed expenses
 - volunteer benefits; and
 - losses, write offs and special payments.
- SMC2(d) sought views on these.
- 6.2 For SMC 2(d) eighty-seven percent of respondents agreed with the expense disclosure requirements, no respondents disagreed. Thirteen percent of respondents neither agreed nor disagreed. Eleven respondents did not answer this SMC.
- 6.3 Ninety-four percent of 127 respondents to the ED3 survey were of the view that it was important or somewhat important that disclosures were made about staff costs. Ninety-one percent of 128 respondents were of the view that it was important or somewhat important that disclosures are made of amounts paid to members of an NPO's governing body.
- 6.4 There were various comments across the disclosure requirements for expenses for each of the different topics listed in paragraph 6.1. These have been examined in Appendix D.
- 6.5 Several supportive comments on the disclosure requirements for expenses included that the disclosure requirements are clear and ensure that all relevant expenses, including support costs and fundraising costs, are adequately reported. Other comments indicated that the disclosures were consistent with a jurisdictional GAAP and IFRS.
- 6.6 The responses to this SMC included comments on:
- Losses, write offs and special payments – comments focused on terminology and sufficiency of guidance. The Secretariat will make changes to terminology and review to ensure that there is appropriate guidance to support implementation.
 - Related party disclosures – comments included whether the analysis should follow the presentation of information that is required by employee benefits. The Secretariat considers that this is a decision for the NPO, but that INPAG can feature more guidance.

- Short-term employee benefits – these comments focussed on terminology and included a suggestion to amend paragraph G28.38A, (where members of the NPO’s governing body are not considered employees for the purposes of the short-term employee benefit disclosure) to make it clear that the exemption does not apply to members of the governing body who are also employees. The Secretariat agrees that clarification is necessary where members of the governing body are also employees.
- 6.7 There were several comments on benefits received by volunteers mostly from one respondent. This included a request for a definition of volunteer benefits, illustrations, clarifications on what costs will be included, suggestions that there should be consistency with the governing body member disclosure and a query about whether the costs should be reported in aggregate. The Secretariat considers that more exemplification of volunteer benefits can be included in the Implementation Guidance with additional guidance on what is to be reported and the need for an appropriate analysis.
- 6.8 This respondent commented G24.51(a), which requires volunteer benefits to be disclosed even if they are provided on equivalent / same terms as employees or other eligible service recipients (depending on the nature of the benefit). They were of the view that this proposal is more onerous than the requirements for transactions with members of the governing body proposed in paragraph G33.18(b). The Secretariat proposes that volunteer benefit/expenses reporting is aligned with governing body member reporting at paragraph G33.18(b).
- 6.9 A respondent also suggested that cost/benefit considerations should be included in the disclosure of volunteer benefits and the Secretariat will consider whether any cost/benefit prescriptions (based on materiality) can be added to paragraph G24.52.

Question 7: What are TAG members’ views on the Secretariat’s responses to the comments on the expenses’ disclosure requirements presented in Appendix D?

Question 8: What are TAG members’ views on the disclosures of volunteer benefits, particularly the consistency with governing body member disclosures?

7. Cost description and identification of the full cost of activities

- 7.1 For SMC 2(e) eighty-five percent of respondents agreed with the description of direct costs, shared costs and support costs and that these allow the full cost of

an activity to be identified. Two percent of respondents disagreed and thirteen percent neither agreed nor disagreed. Ten respondents did not answer this SMC.

- 7.2 Ninety-eight percent of 127 respondents to the ED3 survey considered that it was important or somewhat important that INPAG includes principle-based descriptions of direct, shared and support costs to support greater consistency in the approach to cost allocation.
- 7.3 Respondents that agreed with the SMC commented that the descriptions and principles outlined provide a structured and transparent way to account for the full costs associated with an activity, aligning with the requirement to provide a faithful representation of those costs. A donor respondent commented that breaking down costs in this way provides clarity for donors, who often want to see exactly how their funds are being utilised.
- 7.4 The respondent that did not agree with the requirements of this section was of the view that two sections [presumably Parts II and III of Section 24] should be omitted. The respondent commented that the basis of allocation and aggregation varies significantly from donor to donor and the structure of the agreements even within the same donor. This disclosure may become onerous especially where NPOs are running several programmes with different donors.
- 7.5 The Secretariat does not concur that Section 24 Parts II and III should be omitted because expense classification and fundraising costs are an important part of NPO financial performance, as evidenced by the responses to the SMCs. The Secretariat concurs that the basis of allocation and aggregation may vary from donor to donor, but INPAG will allow an NPO to report on a basis which is relevant and faithfully represents the costs of the activities (including fundraising). Reporting requirements being included in INPAG will support the harmonisation of presentation across donors and reduce the resource burden.
- 7.6 A respondent commented that it could be clearer how the requirement to disclose fundraising costs interacts with the other requirements for the presentation of the SOIE. For example, if a by function analysis is used, are fundraising costs to be considered a function in themselves, or would they be expected to contribute to multiple functions?
- 7.7 The same respondent was of the view that it may not be desirable to offer a free choice of whether to disclose the fundraising costs on the face of the SOIE or in the notes. They commented that the former option could make it challenging for users of financial statements to compare different NPOs, particularly given the flexibility already offered in the presentation of expenses. If fundraising costs are

presented on the face of the SOIE, the other expenses presented (whether by nature or by function) will necessarily be different than if fundraising costs were presented in the notes. This respondent also noted proposed paragraph G24.67 refers to a need to attribute direct, shared and support costs to calculate fundraising costs. It may be worth acknowledging that whether support costs are included depends on the choice made under paragraph G24.49.

- 7.8 The Secretariat is of the view that the approach to presentation is a decision for the NPO. The NPO might decide that fundraising costs should be reported on the face of the SOIE. Alternatively, they could contribute to multiple other functions (and could be separately reported in a note to report on the totality of fundraising costs). The Secretariat does not agree with the respondent that support costs should not be allocated; they need to be allocated to identify the total amount of fundraising costs. This is regardless of whether the NPO uses a by nature classification or does not report fundraising costs as a separate function in a by function analysis. If an NPO chooses not to report total fundraising costs on the face of the SOIE then this must be reported in the notes. The Secretariat will clarify this in paragraph G24.74.
- 7.9 The same respondent (and one other) made the following comments summarised in the table below:

Comment	Secretariat Response
<p>Proposed paragraph G24.71 states that <i>'investment management costs specific to a fund shall be charged to that specific fund in accordance with the requirements of Section 36'</i>. This is potentially confusing as this is a separate matter, already addressed by Section 36.</p>	<p>The Secretariat concurs and will remove this from the paragraph.</p>
<p>Two respondents commented that the apparent accounting policy choice in G24.49(c) may be overlooked by preparers or users. Their view was that this choice will reduce comparability and sought views on whether this was beneficial in reporting terms. A respondent commented that this infers an aggregate or single-line disclosure of support costs.</p>	<p>The Secretariat considers that the reporting choice in paragraph G24.49(c) as drafted might reduce comparability and can see that the two options may result in confusion. An NPO could report support costs as a separate function or decide that programme activities are separately reported as functions (which would need to include an apportionment of support costs to report them in their totality). Both the alternatives are choices within INPAG to support decisions to report a by function</p>



	analysis. The Secretariat proposes to expand the description of these choices for reporting support costs is included in paragraph G24.49(c) and consider whether any additional Implementation Guidance is necessary.
Paragraph G24.48 uses the term 'allocation' and G24.49 uses the terms 'attribution' and 'apportionment'. We suggest that INPAG review the various terms, aim to rationalise and ensure consistency in usage.	The Secretariat agrees and will review these terms for consistent and correct use across Section 24 and its associated guidance.

Question 9: Do TAG members agree with the Secretariat's proposals for the reporting of fundraising costs and their interaction with the other requirements for the presentation of the Statement of Income and Expenses?

Question 10: What are TAG members' views on the Secretariat's proposals regarding the approach to reporting support costs as a part of a by function or a mixed presentation?

- 7.10 A respondent that agreed with the descriptions at a principles level considered that they are not specific enough to create consistency. The respondent commented that tracking the various costs would be more easily facilitated by larger NPOs. They also commented that costs which are indirect / support costs from a national viewpoint (eg country head office in the capital, country director and CFO), are often counted as direct costs from the headquarters' viewpoint for international NPOs.
- 7.11 The respondent was of the view that one of the key reasons for disclosing support costs is to enable the calculation (and disclosure) of an indirect cost rate. This will need "a requirement" or an example of such a disclosure in INPAG and clearer guidance about what should or should not be included in support costs and the direct cost base. The respondent suggested a more rules based INPAG Practice Guide to harmonise the calculation and disclosure of indirect cost rates by NPOs.
- 7.12 The Secretariat notes that this SMC relates to a by function or mixed presentation analysis, but the issues raised by this respondent would not occur if an NPO reports on a by nature analysis. Consequently, the reporting of support costs while important, may not be a substantial issue for all reporting NPOs.
- 7.13 The Secretariat supports the provision of more guidance and the possibility of producing a Practice Guide on the reporting of support service costs. but does not

agree with a rules-based approach as this conflicts with INPAG as principles based guidance. Also, a rules-based practice guide might not reflect the apportionment of support costs to an individual NPO's activities, and the costs of the reported functions may not therefore be faithfully represented.

- 7.14 A respondent that agreed commented that the approach to the description of costs and cost allocation increased complexity and that NPOs needed more technically skilled employees. The Secretariat notes this comment but would highlight that cost allocation is necessary to report a by function and mixed presentation analysis, where this is used.
- 7.15 A respondent that agreed stated that what was important was the allocation of overhead costs between funds rather than the split between functions. The Secretariat concurs that this is also important, and this is addressed in paragraph AG36.10 of ED3.
- 7.16 A respondent commented that the current disclosures required by paragraph G24.50 seem to require the disclosure of the method only when an analysis by function or mixed presentation of expenses has been used and that a disclosure requirement should be added for other apportionments. This has been mentioned in responses to other SMCs. The Secretariat is of the view that apportionment of overheads is not as significant when a by nature analysis is used. Therefore, no change is proposed.
- 7.17 A respondent recommended that a requirement to include a disclosure on the breakdown of amounts incurred as governance costs be added. The Secretariat understands that governance costs might be important for some NPOs but is of the view that a discussion of governance arrangements is more useful in accordance with the specifications of Section 35 *Narrative Reporting*. If an NPO considers that governance costs should be reported as a material transaction, it can choose to report it in the financial statements.
- 8. Fundraising activities – the inclusion of commercial and trading activities and investment management costs that generate returns**
- 8.1 Eighty percent of respondents agreed with SMC2(f) that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising activities. Sixteen percent of respondents disagreed and four percent neither agreed nor disagreed. Thirteen respondents did not answer this SMC.

- 8.2 Twenty-six percent of 123 respondents to the survey considered that it will be easy to identify the three categories of fundraising costs (costs of obtaining grants and donations, commercial and trading income and investment management) with fifty-one percent of respondents considering that it would be manageable. Twenty-two percent were of the view that it would either be difficult or very difficult.
- 8.3 A respondent that neither agreed nor disagreed commented that while trading or exchange activities may not themselves be a missional activity, they may be considered a type of fundraising activity if the primary objective is to generate funds. However, they considered it is important for the NPO to have the flexibility to determine the primary purpose for each activity.
- 8.4 Several respondents disagreed with both activities being included, commenting:
- Only fundraising activities in the traditional sense should be included with other activities being reported relating to the revenues generated.
 - These are not processes to generate voluntary contributions through non-exchange transactions. The risk and nature of those activities are not similar and should not be combined for reporting.
 - These activities should not be included in fundraising costs charged to donor funds unless the income from these activities is fully dedicated to the NPO's missions, which might not always be the case.
 - The net proceeds (profit, income less costs) from these activities transferred or used for NPO purposes would be contributions to the NPO's funds.
 - The revenues are earned by the NPO as dividend or profit. NPOs must follow the [various] regulatory authorities' specifications.
- 8.5 The Secretariat has previously noted that these costs may not represent the "traditional" description of fundraising costs. The Secretariat agrees that commercial and trading activities are exchange activities. It also notes that the risk and nature of these activities are different and may be subject to different regulatory requirements. However, the Secretariat is of the view that they are activities that can support the generation of funds in pursuit of an NPO's missional objectives and therefore could be reported as fundraising costs.
- 8.6 A few respondents were of the view that investment management costs should not be considered as a part of fundraising costs. This is because investment management involves the ongoing administration and oversight of funds, whether managed internally or by a third party. These costs are, however, consistent with the description of fundraising activities outlined above in paragraph 8.5.

- 8.7 Two respondents were of the view that because some investment management costs are “capitalised” (presumably included in the amortised costs calculation) they should not be reported as fundraising costs, with one respondent indicating that would mean that these costs would not be reported transparently if “hidden” in fundraising costs.
- 8.8 Where these “capitalised” transaction costs are included in an amortised cost calculation it is likely that they would not be a part of investment management costs. The Secretariat’s view is that the current description of investment management costs is unlikely to include transaction costs and therefore this is unlikely to be a significant issue.
- 8.9 A respondent that agreed commented that NPOs below a certain size (eg up to USD 1million income) should be required to separate fundraising costs so was of the view paragraph G24.58, which sets the scope for Part III, is too broad. The Secretariat is of the view that adding tiered reporting will make INPAG more complex and more difficult for preparers to apply and that the guidance in INPAG is not aimed at the smallest of NPOs.
- 8.10 A respondent that agreed indicated that they had reservations about the wording of paragraph G24.66 which states:
*“Where an NPO holds an investment that **it relies** on to generate returns to be able to carry out its missional purposes, investment management is considered as a category of fundraising costs” [emphasis added]*
Their view was that this is a narrower scope than suggested by the SMC and that investment costs may arise in circumstances where the NPO is not reliant on the returns for its working capital but is investing in funds for treasury management purposes. Also, treasury management costs appear not be included.
- 8.11 The Secretariat is of the view that treasury management costs which arise from donated financial assets would form a part of fundraising activity costs and would probably be activities either under portfolio management or administration costs and are therefore within the scope. It is of the view that this can be addressed in Implementation Guidance. However, the treasury management activities of the NPO to maintain its “own” cash flows and possibly other forms of treasury management activities are not or might not be fundraising costs. The Secretariat proposes providing relevant clarification in Section 24 Part III. Where treasury management costs cannot be separated from fundraising costs without undue

cost or effort it is suggested that NPOs should disclose this fact, and this should be included in core text.

- 8.12 The same respondent referred to a jurisdictional GAAP which provides a practical exemption where entities are not expected to pro-rate investment management fees charged to a collective investment scheme to identify the notional cost attributable to its own holding in the scheme. They suggest that a similar exemption may be used in INPAG on a cost/benefit basis. The Secretariat will investigate, including through the focus groups whether such an exemption would be beneficial in INPAG.
- 8.13 A respondent that agreed recommended that there is clear guidance on the split of costs where expenses are incurred for more than one purpose (eg fundraising costs). This is particularly given that commercial and trading activities do not include those activities that are part of the operating model established to meet an NPO's mission or objectives where charges are made. The Secretariat will consider whether additional guidance might usefully be included in Implementation Guidance.
- 8.14 It is important to note that there was strong support for the proposals, even though some respondents have raised points in relation to both commercial activities and investment management costs carried out for fundraising purposes. The Secretariat is considering exploring whether only requiring disclosure of these fundraising costs (even if the cost is material) where these activities contribute a material amount to an NPO's income would provide a pragmatic response. It has sought PAG's views on the issue and will update TAG at the meeting. While this would remove the requirement to disclose for many NPOs, it would add complexity and require additional work to evaluate the materiality of the funds generated to the NPO's overall income.
- 8.15 A respondent was of the view that the costs incurred from selling donated items should not be classified as fundraising; instead, the net profit from these sales should be treated as donation received. They were also of the view that, if assets are procured for running a social enterprise, such expenses should be considered an investment. The Secretariat is of the view that this does not follow the approach in the consultation and that these would be the cost of commercial and trading activities but is of the view that assets procured for running social enterprises are not fundraising costs.

8.16 A comment was also received in relation to terminology with a recommendation that the term 'fundraising costs' be replaced with 'cost of generating funds' to reduce the confusion. The Secretariat understands this point but is of the view that confusion can be minimised with an appropriate description in INPAG including its Implementation Guidance and through educational materials.

8.17 Additional technical comments have been included in Appendix E.

Question 11: Do TAG members agree that fundraising costs should continue to include commercial and trading and investment management costs? Do TAG members support the exploration of pragmatic exceptions and if so the potential basis for these?

Question 12: Do TAG members consider that the current description of investment management costs should refer specifically to treasury management activities?

9. Undue cost or effort (pragmatic exception)

9.1 Seventy-three percent of respondents agreed with SMC2(g) and the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders. Fifteen percent of respondents disagreed and twelve percent neither agreed nor disagreed. Eleven respondents did not answer this SMC.

9.2 Seventeen percent of 122 respondents to the survey considered that it would be easy to apply the INPAG requirement to disclose fundraising costs where the purpose of an activity is not entirely for fundraising while forty-six percent were of the view that it would be manageable. Thirty-three percent were of the view it would be difficult or very difficult.

9.3 Respondents that agreed commented that:

- It strikes an appropriate balance between transparency and administrative efficiency.
- Where expenses cross multiple activities including fundraising, cost allocation should be based on reasonable and practical methods to avoid a disproportionate administrative burden.
- Splitting fundraising costs from other costs may not always be practical or valuable. The pragmatic exemption focuses on delivering value in reporting without unnecessary complexity.

9.4 A respondent that agreed suggested, however, that consideration might be given to changing 'undue cost or effort' to transactions which are immaterial, otherwise

there is a risk to transparency in financial reporting. This respondent noted that evidence from a national charity regulator's public polling is that the public that make donations want to know about fundraising costs and ethical behaviour in fundraising.

- 9.5 The Secretariat does not concur that the approach should be based on whether the transaction is immaterial. NPOs will already be able to take decisions on materiality from the general prescriptions in INPAG. The undue cost or effort exemption specifically considers the resource burden on NPOs of the cost allocation process. The Secretariat does not suggest pursuing this option.
- 9.6 Another respondent suggested that a benchmark threshold be provided instead. For instance, where total fundraising costs is less than 15% of total expenses, there would be no need to split. The Secretariat does not concur. International standards generally do not include quantitative thresholds. The Secretariat also notes TAG members' previous advice on thresholds for low value inventory items and does not suggest proceeding with this proposal.
- 9.7 A respondent who agreed suggested that NPOs should be required to report on a narrative description of own assets used for fundraising purposes. The Secretariat does not see substantial benefits from this suggestion and therefore does not propose pursuing it. NPOs can provide this information if their view is that it is useful to the users of its financial statements.
- 9.8 A further respondent that agreed was of the view that where the exemption has been used this must be clearly disclosed in the notes to the financial statements including:
- why resources required to separate costs exceeds the informational benefit
 - describing the benefits of not separating costs, such as reduced administrative burden or simplicity of the financial statements.
- 9.9 The Secretariat agrees and proposes that a cross reference is made to Section 2 *Concepts and pervasive principles* to clarify that when this exception is applied an NPO is required to report that fact and the reasons why applying the requirement would involve undue cost or effort.
- 9.10 A respondent noted that they generally did not agree with the exception because undue cost or effort exemptions had been removed from their jurisdictional GAAP for entities of a comparable size. They noted, however, that the *IFRS for SMEs Accounting Standard* does include exemptions. The same respondent raised

concerns that proposed paragraph G24.73 refers to 'undue cost or effort', while paragraph AG24.50 refers to situations when 'the costs of estimating or measuring the split are greater than the benefit', and question 2(g) refers to situations when '*the cost of doing so would exceed the information benefit to stakeholders*' commenting that it is not obvious that these are all synonymous and recommending a consistent approach.

- 9.11 The Secretariat notes the comments about the general disagreement with the exemption. It agrees that the approach and subsequent guidance should be consistent with undue cost or effort exemptions and will review all the guidance to ensure that this is the case.
- 9.12 This respondent continued that proposed paragraph AG24.51 states that '*costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial*'. However, their view was that it is not clear how this may be applied in practice setting out several permutations. They questioned if one or more individual categories was immaterial, would fundraising costs simply be disclosed in aggregate?
- 9.13 The Secretariat suggests that if one of the categories is clearly immaterial the costs should be combined with one of the other categories of fundraising costs (with a clear description that this is the case). Where all categories of fundraising costs activities are individually immaterial, they should be aggregated.
- 9.14 The same respondent also provided detailed/drafting issues, including incorrect cross references with which the Secretariat concurs:
- Paragraph G24.76 requires an NPO to disclose '*whether costs have been allocated between more than one purpose and/or whether the pragmatic exception ... has been applied*'. This is 'and/or' because it is possible to apply the pragmatic exception on an expense-by-expense basis (with some expenses incurred for more than one purpose being split, and others not being split for undue cost or effort reasons). If so, this could be made clearer in paragraph G24.73. *The Secretariat will provide the additional clarification that this is the case.*
 - Paragraph AG24.51 contains both a requirement and the rationale for that requirement (ie each category of fundraising activities shall be disclosed separately unless an individual category is immaterial); the rationale should usually be included in the Basis for Conclusions. *The Secretariat concurs and will move the rationale to the Basis for Conclusions.*
 - Paragraph G24.76 does not require an NPO to disclose how costs have been allocated between more than one purpose. This seems inconsistent with the



requirement to provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs (also in paragraph G24.76), and the requirement to disclose the basis used in apportioning shared costs and support costs (G24.50). *The Secretariat will consider how this might be best addressed in the disclosures on fundraising costs.*

- Paragraph BC24.84 refers to certain disclosure requirements being 'discussed' and being 'supported', without making clear that (as appears to be the case), those requirements have been proposed. *The Secretariat will clarify the approach taken forward in the final draft in the Basis for Conclusions.*

The respondent also suggested reviewing the syntax and punctuation in paragraph G24.73. *The Secretariat will review the paragraph.*

- 9.15 Several of the respondents that disagreed were of the view that it was important that all fundraising costs were reported separately to support transparency, at least in disclosures. This was to assist in the prevention of fraud and to play a role in avoiding money laundering activities. The Secretariat is of the view that it is important to transparently report fundraising costs, but their role is not to prevent fraud and money laundering. Other internal control and anti-money laundering processes and procedures have a key role in this.
- 9.16 A respondent that disagreed with the exception indicated that this was because many funding partners require full information on fundraising costs during organisational capacity assessments which are seeking information on donor dependency ratios and resource mobilization strategies. The Secretariat acknowledges that this might be the case and is of the view that where an NPO is subject to such reviews and assessments this will be a part of an NPO's decisions on whether to apply the exemption.
- 9.17 A respondent that agreed considered that in addition to the disclosure requirements specified the reporting requirements might be augmented, suggesting:
- There should be a clear definition what constitutes a "material" cost to avoid subjective interpretation – the Secretariat is of the view that this will be supported by the enhanced guidance on materiality discussed in TAGFG05-04.
 - NPOs should provide a narrative explanation of the rationale behind not splitting costs – the Secretariat considers that this is addressed in paragraph 9.11 above.
 - There should be a requirement for periodic reviews of whether applying the pragmatic exemption remains appropriate, especially if the nature or scale of activities changes – the Secretariat concurs with this suggestion although this

is covered by the general prescriptions on undue cost or effort. The Secretariat proposes to require a commentary for use in fundraising costs (particularly where costs structures or activities are likely to be subject to change), given the potential benefits.

- More guidance should be provided on how to determine the primary purpose of activities when costs are shared. This is so that the allocation is performed in a way that reflects the true nature of the activities and provides useful information to stakeholders – the Secretariat is of the view that this is not likely to be a function of the reporting of fundraising costs but will consider whether it might be useful to add more guidance on when an activity is for fundraising or an alternative purpose.

Question 13: Do TAG members agree that the undue cost or benefit exception in relation to the splitting of fundraising costs is retained in INPAG in its current form, subject to the augmentations proposed by the Secretariat?

10. Separate disclosure of fundraising costs and presentation of gross amounts

- 10.1 Ninety-four percent of respondents agreed with SMC2(h) that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross. Four percent disagreed and two percent neither agreed nor disagreed. Eleven respondents did not answer this SMC.
- 10.2 Respondents that agreed commented that this allows for greater transparency and clarity in financial reporting, making it easier for users of financial statements to understand how expenses are distributed across different fundraising activities and that it provides a more accurate picture of the resources used for fundraising.
- 10.3 Respondents that agreed noted that offsetting is not permitted under Section 2 *Concepts and pervasive principles* and presenting these costs gross ensures comparability between different NPOs and across periods.
- 10.4 A respondent noted that proposed paragraph G24.75 requires that *'where an NPO deems that users of the general purpose financial reports would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs and related revenue are presented gross'*. They commented that it is not always easy or practical to allocate fundraising costs against the fundraising income given that in some cases the expenditure cannot be directly attributed to a specific income stream for the NPO. The

Secretariat concurs that this can be the case and considers that consistent with G24.75 that NPOs should be allowed but not required to report fundraising revenues.

- 10.5 A respondent that disagreed did not support the mandated disclosure of fundraising costs. The respondent noted that, the misuse of focusing on fundraising costs can be harmful to NPOs. They continued that the disclosure will be misleading given that support costs do not have to be allocated (paragraph G24.49(c)), essentially creating an option.
- 10.6 The Secretariat considers that the weight of views throughout the development of INPAG supports separate reporting of fundraising costs.
- 10.7 INPAG is intended to ensure that the full costs of any functional activities are reported, this is particularly the case for fundraising costs (note that this is confirmed in paragraph G24.67). The Secretariat proposes making appropriate amendments to paragraph G24.49(c) to clarify that where functional costs are reported then this must include an appropriate allocation of support costs. If support costs are reported separately as a function, then an NPO will need to indicate that the support cost functional line item does not include all support costs of the NPO as some costs have been allocated to other functional activities.
- 10.8 The Secretariat proposes to add similar guidance where a mixed presentation analysis is used, with guidance akin to paragraph B82 of IFRS 18 (see extract below):
“For example, if an entity includes some employee benefits in a function line item and other employee benefits in a nature line item, the label for the nature line item would clearly identify that it does not include all employee benefits (for example, ‘employee benefits other than those included in cost of sales’).”

11. Next steps

- 11.1 The Secretariat will update the core guidance, (including incorporating the application guidance into the core text), the Implementation Guidance and the Basis for Conclusions to reflect feedback from TAG members. The Secretariat also intends to hold focus groups in January and early February 2025. The final proposals are planned be brought to the TAG in February 2025.

January 2025



Appendix A

Summary of Feedback Responses on Expenses SMCs

SMC 2(a) Do you agree that there is a rebuttable presumption that a by nature classification of expenses is used unless this doesn't provide the most relevant and reliable information to the users of the financial statements? If not, why not?	Response	Number	% of those who responded
	Agree	39	78%
	Disagree	5	10%
	Neither agree nor disagree	6	12%
	No Response	13	-
		63	100%

SMC 2(b) Do you agree that the rationale for using a classification of expenses other than by nature should be disclosed? If not, why not?	Response	Number	% of those who responded
	Agree	45	88%
	Disagree	3	6%
	Neither agree nor disagree	3	6%
	No Response	12	-
		63	100%

SMC 2(c) Do you agree that where a functional or mixed presentation of expenses is used, a narrative description of the types of expenses incurred on each function line item is sufficient and that a requirement for these to be quantified is not necessary? If not, why not?	Response	Number	% of those who responded
	Agree	33	66%
	Disagree	9	18%
	Neither agree nor disagree	8	16%
	No Response	13	-



		63	100%
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SMC 2(d) Do you agree with the expense disclosure requirements? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	45	87%
	Disagree	-	-
	Neither agree nor disagree	7	13%
	No Response	11	-
		63	100%

SMC 2(e) Do you agree with the description of direct costs, shared costs and support costs and that these allow the full cost of an activity to be identified? If not, why not?	Response	Number	% of those who responded
	Agree	45	85%
	Disagree	1	2%
	Neither agree nor disagree	7	13%
	No Response	10	-
		63	100%

SMC 2(f) Do you agree that commercial and trading activities that are for the purposes of fundraising and investment management costs associated with a fund whose purpose is to generate future returns are included as fundraising activities? If not, why not?	Response	Number	% of those who responded
	Agree	40	80%
	Disagree	8	16%
	Neither agree nor disagree	2	4%
	No Response	13	-
		63	100%



SMC 2(g) Do you agree with the pragmatic exception that fundraising costs do not need to be split from other costs where the cost of doing so would exceed the information benefit to stakeholders? If not, what would you change and why?

Response	Number	% of those who responded
Agree	38	73%
Disagree	8	15%
Neither agree nor disagree	6	12%
No Response	11	-
	63	100%

SMC 2(h) Do you agree that the costs for each of the three categories of fundraising activity should be separately disclosed and presented gross? If not, what should be disclosed and why?

Response	Number	% of those who responded
Agree	49	94%
Disagree	2	4%
Neither agree nor disagree	1	2%
No Response	11	-
	63	100%

Technical responses in SMC2(a) on the use of the rebuttable presumption

Respondents' comments	Secretariat Response
<p>Paragraph 78 of IFRS 18 allows an entity to present an analysis of expenses in the operating category by one or both of their nature and their function.</p> <p>Paragraph 83 of IFRS 18 also requires certain line items (such as depreciation, impairment losses, and amortisation) to be presented in the notes to the financial statements when operating expenses have been classified by function.</p> <p>They consider that IFRS 18 is relevant to INPAG given that it represents the latest developments by the IASB (albeit that it has not yet been considered for inclusion in the <i>IFRS for SMEs Accounting Standard</i>). Their view was also that INPAG is less flexible than IFRS 18.</p>	<p>See body of main report. INPAG does not require a by nature and the minimum analysis required by IAS 1 and IFRS 18 of depreciation, impairment losses and amortisation etc where a by function analysis is presented.</p> <p>The Secretariat agrees that this “minimum analysis” does present useful information and would generally support its inclusion but would highlight that this is not required by IFRS for SMEs.</p> <p>Including these disclosures would be a more onerous requirement and would not be consistent with the approach to development of INPAG.</p> <p>This risk is probably minimised by the rebuttable presumption as information provided by nature is likely to include this analysis of expenses. <i>TAG's views are sought on this issue.</i></p>
<p>Paragraphs G24.46, G24.47 and AG24.48 of INPAG do not require the disclosure of the NPO's total costs for items such as employee benefits and depreciation, whereas under paragraph 83 of IFRS 18, the entity is required to provide the totals for such items when using a 'by function' or mixed expenses analysis.</p>	<p>See response in preceding row – note that section 28 requires an analysis of short-term employee benefits, the reporting of long-term benefits, termination benefits and post-employment benefits. Depreciation will be reported in the movements note for property, plant and equipment.</p>
<p>There is an inconsistency between the rationale that is applied in the Basis for Conclusions and paragraph G24.44.</p> <p>Paragraph BC24.59 states that stakeholders considered a 'by nature' analysis to be 'the simplest to prepare', and that it would be permitted by accounting software. However, paragraph G24.44 states a rebuttable presumption that a 'by nature' analysis will</p>	<p>The Secretariat concurs that there is a lack of consistency and will ensure that the drafting of the Basis of Conclusions clearly and consistently states the evidence for the rebuttable presumption in INPAG.</p>



Respondents' comments	Secretariat Response
provide 'the most relevant and reliable information to users'. The respondent concluded that the reader is left unsure of the evidence base for the rebuttable presumption.	
The style of the headings above paragraphs G24.45, G24.46 and G24.47 is inconsistent.	The Secretariat will check headings for consistency of treatment in the review and editorial processes and ensure that this is corrected.
In paragraph BC24.60, we think that an instance of 'is used' should be 'were used'.	The Secretariat is of the view that either would be acceptable but will consider in the overall context of the Basis for Conclusions.
A view was provided that the presumption was an assumption without certain evidence. The same respondent was concerned about the understandability of using the presumption which would be treated very differently in for example the legal environment.	The Secretariat concurs that there may be some misunderstanding over the use of the rebuttable presumption with NPOs and the understanding of such terms in common use, but such presumptions are used in international standards (and are used in the <i>IFRS for SMEs Accounting Standard</i>). Additional guidance and educational materials might be needed to support NPOs in their use of the rebuttable presumption. <i>TAG's views are sought on this issue.</i>
INPAG is more permissive than a jurisdictional GAAP which only permits an alternate approach for smaller charities.	The Secretariat notes this comment but would refer TAG members to the analysis in Section 3 in the body of the main report.
The inclusion of 'research and development' as an example of a "by nature" expense in the illustrative financial statements is potentially confusing, as it seems to be an activity or function rather than an input.	The Secretariat concurs and will add more guidance based on the descriptions of a "by function" and "by nature" analysis in IFRS 18.
A request for more illustrations.	The Secretariat will review the level of exemplification and will consider whether more illustrations or examples are needed.

Appendix C

Detailed technical comments relating to SMC 2(c) reporting by nature expenses in a by function or mixed presentation analysis

Respondents' comments	Secretariat Response
<p>The mixed presentation should be highly discouraged. An NPO should elect into a by nature or by function and continue with that approach to foster comparability over years.</p>	<p>The Secretariat does not agree. A mixed presentation may in certain cases provide the most useful analysis for some NPOs the Secretariat would note that a mixed presentation is permitted by IFRS 18.</p>
<p>Regard be made to the recently issued IFRS 18 and provide simplifications or not requiring compliance with technicalities of those expenses being included in inventory, and therefore movements in inventory affecting the amount of those items being recognised in net surplus.</p>	<p>See comments in the body of main report about having regard to IFRS 18. The Secretariat is of the view that some simplifications may be able to be offered for inventories (see TAGFG03-04) relating to their recognition and measurement, but this is an important issue for many NPOs and will significantly impact on surplus or deficit.</p>
<p>Proposed paragraph AG24.48 states that 'quantification of these amounts may be useful as part of the narrative description'. This may result in confusion amongst preparers, as proposed paragraphs G24.46 and G24.47 do not require this. Additional requirements should not be introduced through the Application Guidance.</p>	<p>The Secretariat concurs. NPOs will be free to quantify amounts by nature if they consider that this is useful to the users of the accounts and propose to move this to the Implementation Guidance.</p>
<p>Concern expressed that, unlike in IFRS 18, there is no requirement to provide transparency over the totals for certain expense categories such as staff costs.</p>	<p>INPAG includes a requirement to report certain expenses in accordance with the relevant section. For example, Section 28, <i>Employee Benefits</i>, Section 17 <i>Property, Plant and Equipment</i> and Section 18 <i>Intangible Assets Other than Goodwill</i>.</p>
<p>Quantification of expense types within functional categories could provide additional value to users of the financial statements, particularly for those interested in understanding specific resource allocations</p>	<p>The Secretariat concurs that this might be the case. There are arguments, for example, provided in the Basis for Conclusions in IFRS 18 (paragraph BC260) that the aggregations of expenses by nature bring together different types of expenses which respond differently to the economic environment. If by nature expense classification is not used or included in the financial statements this might mean more difficulty in understanding resource utilisation.</p>



Respondents' comments	Secretariat Response
	However, this would add more detail to the financial statements and is not required by the IFRS for SMEs Accounting Standard. Per the response to a similar point, NPOs can include this information if it is useful to the users of its financial statements.
While a narrative description provides a sufficient level of disclosure in many cases, quantification could offer deeper insights and transparency.	It is agreed that this might be the case but the proposed approach in ED3 attempts to balance this transparency with the reporting burden of NPOs. See responses to similar comments.
If specific functions or programs are used, quantification by nature allows for comparison of costs with other NPOs performing similar functions or programs.	It is agreed that for some NPOs quantification by nature will allow this, but the Secretariat is of the view that the functional analysis is so diverse that it might be difficult for effective comparisons to be made.

Comments relating to SMC 2(d) – Expense Disclosure Requirements

Respondents' comments	Secretariat Response
General Comments	
<p>Two respondents suggested that the disclosures are consistent with GAAP and IFRS which require disclosure of compensation, key management personnel, employees' benefits, related parties.</p>	<p>The Secretariat concurs with this comment.</p>
<p>The disclosure requirements are clear and ensure that all relevant expenses, including support costs and fundraising costs, are adequately reported. This promotes transparency in the use of donor funds.</p> <p>The INPAG expense disclosure requirements ensure that both direct and indirect costs (support costs) are reported.</p> <p>Disclosing costs related to fundraising and support costs ensures that donors understand how much of their contributions go toward mission-related activities versus administrative or fundraising expenses.</p> <p>They provide clarity on cost structure without overwhelming users with unnecessary details.</p>	<p>No further comments.</p>
<p>IPSAS 24 <i>Presentation of Budget Information in Financial Statements</i> requires entities that make their approved budgets publicly available to include a comparison of the budgeted and actual amounts in the financial statements. The respondent would suggest including such a requirement in INPAG.</p>	<p>Consideration has been given to the reporting of budget numbers, but it is not considered relevant for general purpose financial statements. Budget information can be included in the narrative report or supplementary statements produced following INPAG Practice Guide 1.</p>
<p>The emphasis on sector practice is good for comparability, but it could lead to a one-size-fits-all approach that might not fit all NPOs equally.</p>	<p>This is noted but the approach to Section 24 Parts II and III is to enable accounts preparers to reflect their individual circumstances in a pragmatic way. Even where standardised approaches are encouraged, for example through the rebuttable presumption, INPAG still requires that the by nature classification of expenses is rebutted if a reliable and more relevant classification is provided in a by</p>



Respondents' comments	Secretariat Response
	function or a mixed presentation analysis (see Section 3 of the main body of the report).
Two respondents suggested that the drafting of paragraph G24.51 is unclear. With one questioning whether it is to be read as (i) 'an NPO shall disclose in the analysis of expenses or the notes, if not already presented in the Statement of Income and Expenses...' or (ii) 'if not already presented in either the Statement of Income Expenses, the analysis of expenses, or the notes, an NPO shall disclose...?'	The Secretariat considers that the intention is that an NPO shall disclose volunteer benefits and losses write-offs and unusual costs if they are not reported elsewhere and will provide appropriate clarification in paragraph G24.51.
Expenses by nature may also include apportioned shared costs and support costs. The respondent queried whether the basis used for apportioning shared and support costs in case of expenses by nature should be disclosed.	The Secretariat considers that such apportionment for a by nature analysis is less significant. The Secretariat is not clear about the nature of such apportionments so will seek the views of the focus group on expenses. <i>The Secretariat would seek TAG's views on this issue.</i>
Requests for additional illustrations against different contexts.	The Secretariat will review the authoritative and illustrative guidance to ensure that illustrations and examples are included where they illustrate a principle or concept.
Request for more guidance on support costs.	The Secretariat considers that there is significant guidance on support costs but will review to ensure that no further prescriptions or illustrations are required.
A request for a specific section for disclosure of expenses when a functional or mixed classification is used.	The Secretariat will consider whether there is sufficient guidance on the reporting of a by function or mixed presentation analyses of expenses.
Ensuring that the methods of allocation and aggregation are consistently applied is important, but it might be challenging for NPOs to maintain consistency, especially with changing circumstances	The Secretariat concurs and will review to ensure sufficiency of guidance.
Losses, write offs and special payments	
Specific attention should also be drawn to losses due to fraud and theft – see specific jurisdictional GAAP.	The Secretariat considers that this is the one of the functions of this disclosure and will review to ensure that there is sufficient emphasis on fraud and theft.



Respondents' comments	Secretariat Response
Clarifications suggested: 1. disclosures for volunteers (paragraph G24.52) are related to volunteers who are not employees. 2. whether losses, write-offs and special payments can be included as a single line item or needs to be disclosed as 3 items. At least special payments are separately disclosed.	<ol style="list-style-type: none">1. The Secretariat does not consider that the drafting should specifically exclude employees as some employees may undertake volunteer work and some volunteers may be employed by the NPO. However, the definitions of these costs should themselves mean that they are separately reported.2. The Secretariat is of the view that this is a decision for the accounts' preparers in accordance with users' needs and whether the costs of each are sufficiently different to be itemised separately.
A respondent suggested that the word "special" expenses may be misinterpreted for other meanings and offered alternatives including "unusual".	The Secretariat concurs and will instead describe these costs as "unusual".
Separating these benefits from employee benefits is crucial for transparency and ensures that users can distinguish between different types of payments.	The Secretariat concurs.
<i>Related party disclosures</i>	
Proposal that G.33.10 (d) be deleted, as it can be prejudicial to the preparer of the accounts.	The Secretariat considers that this can be reported in a way which is not prejudicial. This is considered alongside other responses that relate to Section 33.
Query: should the required disclosures for compensation under G33.7 and G33.10 follow the same analysis as under G28.38?	The Secretariat is of the view that this will be a decision for the NPO for it to report such compensation using the same analysis as Section 28 <i>Employee Benefits</i> , though short-term employee benefits disclosures for key management personnel will already be reported under paragraph G28.38. This is in line with other responses to Section 33.
<i>Short-term employee benefits</i>	
The term "bonus" should not be used in this guidance. Bonuses are typically associated with profit-driven organisations "bonus" should be replaced with "allowance" (such as "performance	The Secretariat does not consider that there is an NPO specific reason to change this description.



Respondents' comments	Secretariat Response
allowance" or similar) to reflect the nature of compensation in non-profit contexts.	
Recommendation amending G28.38A [where members of the NPO's governing body are not considered employees for the purposes of the short-term employee benefit disclosure] to make it clear that the exemption does not apply to members of the governing body who are also employees.	The Secretariat agrees that some clarification will be necessary where members of the governing body are also employees.
There does not seem to be a requirement to report travel and subsistence for employees.	The Secretariat will ensure all relevant and frequently occurring forms of employee compensation are included in Section 28.
<i>Benefits received by volunteers</i>	
For paragraph G24.52 benefits received by volunteers, considerations should be included when the value of the benefits received is difficult to evaluate (ie cost/benefit considerations).	The Secretariat will review the measurement requirements for the disclosures on volunteer benefits for cost benefit considerations.
Separating volunteers benefits from employee benefits is crucial for transparency and ensures that users can distinguish between different types of compensation	The Secretariat concurs that these should be separately distinguished and will review the drafting of the relevant paragraphs to ensure that this is the case.
<p>Several separate comments on volunteer costs:</p> <ol style="list-style-type: none"> 1. It is not clear what sort of benefits may be provided to volunteers; some examples in this area would aid preparers. 2. Volunteer benefits might be intended to include travel costs and subsistence to enable them to undertake the volunteering. This is not clear in the Guidance 3. The respondent suggests that a definition is included for benefits received by volunteers. 4. The respondent understands proposed paragraph G24.51(a) requires volunteer benefits to be disclosed even if they are provided on equivalent / same terms as employees or other eligible service recipients (depending on the nature of the benefit). If this correct, this proposal is more onerous than the 	<p>The Secretariat:</p> <ol style="list-style-type: none"> 1. will include both examples to ensure that what is meant by volunteers is clearly understood. 2. considers that volunteer benefits would not include travel and subsistence costs but considers that these forms of compensation should be disclosed as expenses related to volunteers and make such a clarification. 3. is of the view that volunteer benefits will be largely understood and considers that a definition should not be included but will provide illustrations of the type of costs to be reported. 4. suggests aligning the proposals of paragraphs G24.51(a) with G33.18(b).



Respondents' comments	Secretariat Response
<p>requirements for transactions with members of the governing body in proposed paragraph G33.18(b). It is not clear what the rationale for this is.</p> <p>5. In some cases, there may be a large volume of transactions providing benefits to volunteers, or a significant process required to check whether there have been any benefits provided. The respondent suggests that INPAG considers what the practical implications of this may be, considering materiality.</p> <p>6. The requirement of paragraph G24.51(a) is not clear whether it requires an aggregate figure, or whether disclosure of specific transactions is required. The respondent considers that if this requirement is retained in the final Guidance, it should be clarified that what is required is an aggregate disclosure.</p>	<p>5. will seek to ensure that there is a cost benefit balance to disclosures of volunteer benefit where there are significant measurement issues and set against materiality.</p> <p>6. considers that the disclosures should include some analysis of volunteer benefits/compensation and will make this clarification – this should be subject to materiality considerations.</p>
<i>Fundraising costs</i>	
<p>Example 2 of Implementation Guidance on Section 24 (Part II), it would be useful to be clear that gross presentation is required.</p>	<p>The Secretariat will confirm that a gross presentation is required.</p>
<p>Pragmatic Exemption: Allocation of Costs with Multiple Purposes (G24.71 and AG24.50): While the pragmatic exemption is useful for practical reasons, it could lead to a lack of granularity in financial reporting</p>	<p>The Secretariat considers that the pragmatic exemption is useful on a cost/ benefit basis.</p>
<p>The detail of reporting might be overwhelming for smaller NPOs. A tiered approach to disclosures, where smaller organisations can provide summarised information while larger ones provide more detailed breakdowns, could reduce the reporting burden while still ensuring transparency.</p>	<p>The Secretariat considers that tiered reporting will make INPAG guidance more difficult to understand and would highlight that INPAG is not intended for the smallest NPOs. It does not propose proceeding with this suggestion.</p>

Technical Comments relating to SMC2(f) – Fundraising Costs and Commercial and Trading and Investment Management Costs

Respondents' comments	Secretariat Response
Suggestion that it would be useful if the paragraphs on commercial and trading activities could be illustrated with examples.	The Secretariat will consider additional illustrative examples where this supports a principle or concept.
Comments provided on the need for clarity on the nature of costs. They commented that an NPO should consider having primarily pre-operating costs and research and development costs as fundraising costs. Other costs would be the cost of operating activities.	The Secretariat is not clear why the respondent is suggesting such an analysis of costs.
Suggestion for guidance on the split of costs in circumstances where: (a) There are expenses incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO; (b) The charges incurred are part of the operating model established to meet an NPO's mission or objectives, as envisaged under para G24.65. Also, see further guidance under para G24.72 and G24.73.	The Secretariat will consider whether this might usefully be included in Implementation Guidance.
This is a narrower scope than suggested by the SMC. It is not clear under INPAG why the NPO should categorise only those particular investment costs as fundraising costs. We would expect that investment costs may arise in circumstances where the NPO is not reliant on the returns for its working capital but is investing in funds for good treasury management purposes	The Secretariat will ensure that the scope of the investment management costs is clear and includes all those which should be included in fundraising activities (see body of main report).
There are some NPOs where fundraising costs are simply not material, so an explicit clarification is needed on that issue.	The Secretariat considers that this will be covered by INPAGs general prescriptions on materiality and will be supported by the additional guidance already suggested for INPAG.