Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGFG05-06
21 January 2025 – Virtual

Fair value and Sections 16, 17 and 18 – final guidance

Summary	This paper summarises the consultation responses to the Specific Matters for Comment (SMCs) on Section 12 *Fair value*, Section 16 *Investment property*, Section 17 *Property, plant and equipment* and Section 18 *Intangibles other than goodwill*. It provides an analysis of the responses and sets out the Secretariat's responses to the feedback provided.
Purpose/Objective of the paper	The purpose of this paper is to share the feedback to the SMC 7 in ED3, with an analysis of the key themes arising from the responses. The paper seeks TAG members' views on the Secretariat's approach in responding to these issues. It also seeks the TAGs input on the final guidance in these Sections, which incorporate the Secretariat's response to the comments and feedback provided.
Other supporting items	n/a
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Actions for this meeting	**Advise on**: i. the approach to NPO-specific issues including the recognition, measurement and disclosure of assets held for preservation/heritage assets; ii. the proposed approach to the requests for additional illustrative examples; and iii. the final amendments proposed to reflect respondents feedback.

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Technical Advisory Group

Fair value and Sections 16,17 and 18 - final guidance

1. Introduction

1.1 Exposure Draft 3 includes the following sections:

- Section 12 *Fair value measurement*
- Section 16 *Investment property*
- Section 17 *Property, plant and equipment*
- Section 18 *Intangible assets other than goodwill*

1.2 These sections were not prioritised for full review as part of this edition of INPAG, and therefore largely reflect the text of the equivalent section in the *IFRS for SMEs* Accounting Standard. Section 12 *Fair value measurement* is important for NPOs as donations received by an NPO are required to be measured at fair value. Donations can include investment property, property, plant and equipment, and intangible assets. All of these sections have been updated to reflect consequential impacts of donations in-kind.

1.3 This paper:

- summarises and analyses the consultation responses to the Specific Matters for Comment (SMCs) on Section 12, Section 16, Section 17 and Section 18 (see Appendix A);
- outlines the Secretariat's responses to the feedback;
- seeks TAG members' advice on the issues raised; and
- provides the final drafts of these sections supported by Implementation Guidance and the Basis for Conclusions.

2. Overall response

2.1 Overall, there was strong agreement with amendments proposed to these sections. 88% of those who responded (42 respondents) agreed that the application guidance in Section 12 that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of the fair value measurement of donations in-kind were useful. 8% (4 respondents) disagreed and 4% (2 respondents) neither agreed nor disagreed. 15 respondents to ED3 did not comment on this question.

2.2 98% of those who responded (46 respondents) agreed with the additional guidance proposed for Section 16, 17 and 18. 2% (1 respondent) neither agreed nor disagreed and no respondents disagreed. 16 respondents to ED3 did not comment on this question.

2.3 Two questions were raised in the ED3 survey. Almost 100% of respondents either thought it was very important (77%) or somewhat important (23%) that there is application guidance to support the use of fair value measurement. When asked about the proposals for creating a deemed cost for donated assets 71% agreed, 9% agreed with caveats and 2% disagreed. The remaining respondents weren't sure.

2.4 Generally, respondents agreed with the proposals, with positive comments stating that the additional guidance will support consistency of application and that the examples were useful. However, points were raised about the extent to which the sections addressed NPO specific issues and whether the illustrative examples were sufficient. Respondents also provided a number of drafting comments.

3. Fair value measurement

Sufficiency of data

3.1 Four respondents that supported the proposals raised points relating to the availability of information to carry out fair value measurement. One respondent suggested where an NPO does not have access to the most advantageous market that they should have the option to choose not to apply fair value measurement.

3.2 The Secretariat recognises that there will be situations where determining a fair value is challenging. Paragraph G12.6 requires that the NPO must have access to the principal or most advantageous market at the measurement date. Section 12 of the *IFRS for SMEs* Accounting Standard does not specify what steps should be taken if an entity cannot access the most advantageous market. Without having fully reviewed Section 12 for NPO-specific issues, the Secretariat does not propose an amendment to the authoritative guidance. The Secretariat proposes to include additional guidance on this point in the application guidance, with an explanation in the Basis for Conclusions, including that this will be addressed in future editions of INPAG.

3.3 Another respondent requested additional guidance for circumstances where there is no data or there is scarce or unreliable information, with a third respondent suggesting that the best estimates made by management should be considered where obtaining level 1 and level 2 data can be challenging. The Secretariat has proposed additional text within the Implementation Guidance to address these points, but does not agree that management estimates on their own are sufficient.

Illustrative examples

3.4 Seven respondents provided feedback relating to the illustrative examples. Four respondents supported the examples. One respondent suggested drafting improvements to Example 6, while the other three respondents were seeking more diverse and detailed examples for instance covering a wider range of asset types (e.g., intangible assets, specialized equipment) or different types of restrictions

3.5 The Secretariat agrees that drafting changes are needed to Example 6, to address circumstances where there are no doctors with equivalent experience and the premise that doctors in country B will not have relevant experience.

3.6 The Secretariat understands the desire for more examples. Consistent with previous discussions with the TAG, the Secretariat only proposes to add examples where they illustrate a principle or concept. Other illustrative examples will be made available through education materials post the publication of INPAG. The Secretariat considers that an example for intangible assets will be useful. This has been added as example 7.

Question 1: Do TAG members agree with the proposed additional application and implementation guidance?

Question 2: Do TAG members agree with the approach to the illustrative examples? Do TAG members have any comments on the amendments to example 6 and new example 7?

NPO-specific issues

3.7 Ten respondents, eight that agreed, one that disagreed and one that neither agreed nor disagreed provided comments that related to whether the drafting of Section 12 is appropriate for NPOs and whether further adaptations could be made for this edition of INPAG.

3.8 The respondent that disagreed questioned the logic of valuing using a commercial for-profit model arguing that this fails to reflect the business model of NPO's that are reliant on volunteers and gifts. This respondent suggest that an alternative approach would be to re-express these terms using market price (the price the NPO has recently paid or would have paid for the item), similar market price (the price of an item that is similar or closely resembles the item) and non-market valuation (which best reflects the value of the item using readily available information).

3.9 The measurements suggested by the respondent appear to be exit value measurements, but different to the ones already in use by the private and public sectors, which may create challenges conceptually. Also the Secretariat is of the view that where transactions are no different from commercial entities the accounting should be the same.

3.10 Fair value was not prioritised for review in this edition of INPAG. As a consequence, the application of fair value by NPOs more generally has not yet been considered. The amendments made are limited to those necessary to align with other sections of INPAG. The Secretariat proposes to include a full review of the application of fair value in a non-profit context in future editions of INPAG. This feedback will inform the development of that thinking.

3.11 The respondent that neither agreed nor disagreed shared concerns about the extent to which the use of level 3 inputs will be required. They recommended that consideration be given to the temporary use of deemed cost for certain assets until such time as the fair value chapter is comprehensively reviewed. They cited concessionary leases and other similar arrangements involving rights to use assets at concession rates as examples.

3.12 The Secretariat is of the view that fair value is regularly used to determine the deemed cost of an asset or liability rather than deemed cost being used to determine a fair value measurement. Also this edition of INPAG does not specifically address the measurement of concessionary leases or right to use assets at concessionary rates as this was not a priority topic for the first edition of INPAG. It may therefore not be possible at this time to develop a pragmatic exception to assist with the development of an appropriate measurement technique for these transactions.

3.13 A respondent that agreed suggested that the Section 12 could be improved by removing references to present value as these are not likely to be relevant to NPOs and are complex. They also proposed the removal of the requirement to disclose the hierarchy level used to arrive at the fair value on the basis that it would likely lack meaning for the majority of users.

3.14 Acknowledging that present value calculations can be complex, the Secretariat does not have an evidence base that present value is not relevant to NPOs. As this section is being updated for consistency with modified INPAG sections only, no further changes are proposed at this point.

3.15 Another respondent that agreed referred to the provisions in Section 12 that allow the use of undue cost and effort specifically for aspects of financial instruments requesting that this be extended to other assets. Undue cost or effort was also raised by other respondents who suggested that where the cost of applying the fair value measurement requirements outweighed the benefits, or the value of the donated asset was immaterial that a nominal value be used instead.

3.16 Section 12 text is largely in accordance with *IFRS for SMEs* Accounting Standard with changes made only to align with modifications made to other INPAG Sections. Section 12 allows the use of undue cost or effort provisions, where other sections permit its use such as at G11.17 (c) and G11.65 (b) for financial instruments. As Sections 12, 16,17 and 18 have not been prioritised for full review in this edition of INPAG, the Secretariat does not propose to introduce new exemptions for undue cost or effort.

3.17 It should be noted that Section 12 includes application guidance in AG12.10 and AG12.11 and includes guidance where there may be challenges in obtaining a reliable measurement. AG12.10 requires that the replacement costs of achieving the same service potential is used if observable market information is not available. AG12.11 refers to situations where it is impractical to provide a fair value measurement for certain assets with cross references to Section 13. In addition, Section 23 *Revenue* requires that an explanation is provided of donations in-kind not initially recognised. The Secretariat is of the view that this is sufficient and can be augmented by education materials post the publication of INPAG.

Question 3: Do TAG members agree with the approach to the NPO-specific issues raised by respondents?

Drafting suggestions

3.18 One respondent disagreed with the premise of example 5 expressing concern that service potential as set out in the example is not an appropriate application of a level 3. This is a specific adaptation of the principles in Section 12 for donated assets that have a specification greater than is needed and therefore exceeds the service potential. As this is a deliberate adaptation, the Secretariat does not propose to make any changes.

3.19 This respondent disagreed that the majority of assets held for delivering NPO objectives will be part of Level 3 in the fair value hierarchy and also identified some drafting issues. The respondent queried how a property that is held for a social purpose is also to meet the definition of an investment property and the wording of paragraph AG12.7 with regard to relationship between deemed cost and fair value, where the respondent found the wording confusion.

3.20 The Secretariat agrees that some donated assets can be part of Level 1 or level 2 in the fair value hierarchy and will amend the text to reflect this. The Secretariat agrees that it is unlikely that a property primarily held for a social purpose also meets the definition of an investment property but the intention of the additional text was added to clarify that observable inputs are not relevant when an asset is being held for a social purpose. The Secretariat has changed the example in the paragraph, which should remove the confusion. The Secretariat agrees with the feedback on AG12.7 and will make drafting changes.

3.21 One respondent expressed concern that the guidance on restrictions in paragraphs AG12.6 and AG12.9 are inconsistent with paragraph G12.5. Generally, the adaptations in the application guidance allow for the use of service potential rather than market value to reflect the value of the asset to the NPO as a consequence the Secretariat does not propose changes to AG12.6. The Secretariat agrees that the drafting of AG12.9 is not clear and has made amendments to reflect the application of restriction in this context.

3.22 This respondent was also of the view that it would be more appropriate to use the carrying value to the donor, not cost (which could be the initial historical cost) when applying fair value measurement. The Secretariat agrees that carry value to the donor can be used, acknowledging that this information may not be available to an NPO.

3.23 The amendments arising from this feedback are in Appendix B.

Question 4: Do TAG members agree with the drafting amendments made as set out in Appendix B?

4. Asset held for preservation/heritage assets

4.1 Three respondents commented specifically on assets that are held for preservation or for heritage or cultural purposes. One of the responses considered the guidance on fair value, while the other was in relation to Section 17.

4.2 One respondent argued that assets held for preservation are a distinct and important class of assets. They noted that bodies like museums can have collections for display, as well as collections purely for preservation and that these too should be differentiated. They also noted that collections can relate to religious purposes and that there should not be the situation where items belonging to different religions could be valued differently. They expressed the view that collections for preservation should not be measured, but there should be disclosure in the notes. They proposed these assets should be called "infinity assets".

4.3 Another respondent noted the UK Charities SORP allows for heritage assets not to be valued. The respondent's view was that the underlying premise is that the real worth of the item lies not in realising its cash potential but enjoying its existence. The respondent acknowledged that most things can be sold but this may not reflect its true worth ie service potential.

4.4 Another respondent suggested that a nominal value could be used for "invaluable" assets such as donations of rare book collections to a university as it would be difficult to measure these assets at fair value.

4.5 The Secretariat notes the challenge in applying fair value measurement for some historical/heritage assets whether or not they have been donated. The Secretariat notes that assets held for preservation can be relevant to the public sector and is addressed in IPSAS. The Secretariat proposes to refer to this guidance in the Section 12 Implementation Guidance. The Secretariat also proposes that such assets are considered as an NPO specific topic in future editions of INPAG. The Secretariat does not support the use of nominal values.

Question 5: Do TAG members agree with the Secretariat's approach to heritage and cultural assets and assets held for preservation?

5. Section 17 *Property, plant and equipment*

5.1 Respondents did not identify any issues specific to property, plant and equipment other than those identified more generically in relation to fair value.

5.2 However, in response to the consultation on other sections of INPAG, in particular Section 36 *Fund accounting* respondents raised concerns the transparency of restrictions over property, plant and equipment. Respondents requested that information is required to be disclosed to identify the extent to which items of property, plant and equipment are only available to be used for specific purposes. NPOs can provide this information if they believe that it will be useful to the users of their financial statements, but it is not required.

5.3 The Secretariat sees the benefit of requiring this information to support transparency and consistency. Requiring this information in Section 17 is considered a consequential amendment resulting from the introduction of fund accounting. As a result the requirement to disclose in aggregate the amount of property, plant and equipment that is subject to restrictions by donors or grantor has been added at G17.37. The authoritative text has not otherwise been updated. The Secretariat notes that this could be included as a disclosure requirement for Section 36, but is of the view that may be more useful to show this information alongside other information about property, plant and equipment.

5.4 The Basis for Conclusions has been updated accordingly, with new paragraphs as set out in Appendix B.

Question 6: Do TAG members agree that a new disclosure relating to property, plant and equipment is required and should be added to Section 17 rather than Section 36?

6. Section 16 Investment property and Section 18 Intangible assets other than goodwill

6.1 Respondents did not identify any issues specific to Sections 16 and 18 ie relating to investment property and intangible assets other than those identified more generically in relation to fair value. As a consequence, no changes are proposed to the authoritative text or to the Basis for Conclusion for these sections.

7. Next steps

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

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

January 2025

Appendix A Summary of Feedback Responses to SMCs for fair values and Sections 16, 17 and 18.

ED3 SMC 7 a) Is the Section 12 application guidance that sets out how the fair value hierarchy applies to NPO assets and liabilities and the illustrative examples of fair valuing donations in-kind useful? If not, how could it be improved?	**Response**	**Number**	**% of those who responded**
	Agree	42	88%
	Disagree	4	8%
	Neither agree nor disagree	2	4%
	No Response	15	-
		63	100%

ED3 SMC 7 b) Do you agree with the additional guidance provided for donated: i) investment property (Section 16)? ii) property, plant and equipment (Section 17)? iii) intangible assets (Section 18). If not, why not?	**Response**	**Number**	**% of those who responded**
	Agree	46	98%
	Disagree	-	-
	Neither agree nor disagree	1	2%
	No Response	16	-
		63	100%

Appendix B – Extracts from the Authoritative Guidance, Implementation Guidance and Basis for Conclusions

Authoritative Guidance

Section 12 – Fair value measurement

Application Guidance

Applying fair value to NPOs

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AG12.2 An NPO does not have to carry out an exhaustive search of all possible markets to identify the principal market or in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available.

AG12.3 The most advantageous market may not be the one that generates the highest price, but is the market that an NPO is realistically able to access at the measurement date.

AG12.4 For NPOs:

(a) Level 1 'quoted prices are likely to be limited to specific assets (see Illustrative Guidance example 3).

(b) Level 2 inputs that are derived from observable inputs other than quoted prices may be relevant to NPOs for some assets and liabilities – for example, ~~investment properties~~ office buildings. Where inputs from quoted prices or other observable prices for an asset are available, yet the asset is used for social purposes rather than maximizing **cash inflows**, a Level 3 technique shall be employed (see Illustrative Guidance example 1).

(c) ~~Many assets and liabilities will be part of~~ Level 3 in the fair value hierarchy will be used for assets where there are no observable inputs.

....

Fair value of donated assets

AG12.~~7~~9 The application of fair value measurement on the initial recognition of a donated asset shall result in the ~~be its~~ deemed cost of that asset.

AG12.~~8~~10 ~~Many~~ NPO assets and liabilities may require the use of a Level 3 ~~technique~~ inputs; ~~that is~~ level 3 inputs may use any relevant measurement approach including the ~~either the~~ market approach, cost approach or income approach, where observable inputs are not available. ~~This will be particularly the case for assets arising from donations in-kind.~~ Donated assets can be part of Level 1, 2 or 3 in the fair value hierarchy depending on the level of observable inputs and the impact of an asset being held for social purpose as set out in AG12.14 (c).

AG12.~~9~~11 Where an asset can be freely disposed of, it shall be measured at its highest and best use.~~, which~~ This shall not take account of any previous or existing restriction. It shall also not take account of any current donor restriction that does not relate to the ongoing use of the asset.

AG12.~~10~~12 If an observable input for example a market price is not available and obtaining a reliable measurement of fair value under paragraph AG12.6 is **impracticable**, the fair value of donated items shall be determined as their 'replacement cost'. Replacement cost is the lowest economical cost that would be incurred in achieving the service potential created for use in delivering services to beneficiaries. This provides the value of an equivalent item in local use, or '**value in use**'. An NPO may use the cost to the donor or the carrying amount of the assets provided by the donor (where the historic cost to the donor is not appropriate or known) as the deemed fair value where this is known and is relevant.

Section 17 – Property, plant and equipment

Disclosures

…….

G17.37 An NPO shall also disclose the following:

(a) the existence and carrying amounts of property, plant and equipment to which the NPO has restricted title or that is pledged as security for **liabilities**;
(b) the amount of contractual commitments for the acquisition of property, plant and equipment; ~~and~~
(c) if an NPO has investment property whose fair value cannot be measured reliably without undue cost or effort it shall disclose that fact and the reasons why fair value measurement would involve undue cost or effort for those items of investment property; and
(d) The aggregate gross book value, accumulated depreciation and net book value of property, plant and equipment whose use is restricted to specific activities by donors or grantors.

Implementation Guidance

Section 12 – Fair value measurement

What should an NPO do when it encounters difficulties in obtaining reliable data for fair value measurement?

IG12.1 NPOs may find it challenging apply fair value measurement where there is no data relating to a specific asset or information is scarce or unreliable. Management may need to use judgement to determine an item's fair value. A fair value needs to be determined with reference to the best available information, with that information providing an evidence base for the valuation that is determined.

AG12.2 Sources of information can include, but are not limited to:

- Cost of the same or similar item if purchased in the jurisdiction now
- Cost of the same or similar item if purchased in the jurisdiction when it was manufactured or last available to be purchased
- Second hand markets for the same or similar items in the jurisdiction
- Costs of the key components that make up an asset
- Publications that provide asset valuations that can be used for benchmarking

IG12.3 Obtaining data may be a challenge when it relates to heritage assets, cultural assets or assets held for preservation. Similar measurement issues arise for such assets held by the public sector. IPSAS 45 *Property, plant and equipment* refers to the measurement of heritage assets and may provide a source of additional information.

Illustrative examples

……

Example 6 – Donation of services

A doctor based in country A uses some of their annual vacation to train a doctor in country B on a new surgical ~~surgery~~ technique~~s~~ that enhances patient recovery. The doctor based in country A donates this time and does not receive any remuneration from the NPO for this service.

The NPO determines the fair value of the service provided by the doctor with reference to the type of service provided (surgical training), location of the delivery (country B) and the timing (ie the year when it happened). The fair value therefore ~~should~~ reflects the salary/cost of a doctor with the most equivalent experience in country B, which may be the doctor being trained. The actual salary of the doctor in Country A is not a factor in determining the fair value.

Example 7 – Donation of copyright (intangible asset)

A supporter of an NPO donates to it the copyright in a piece of music that they have written. This donation entitles the NPO to any royalties arising from the use of the copyright until it expires in 20 years time. The supporter has not imposed any conditions on its use, but has encouraged the NPO to maximise its use to generate funds for the NPO.

The fair value of the copyright material is unique to the piece of music that has been written and there are no observable inputs available. The NPO has decided that the most appropriate valuation technique is the income approach which converts the expected revenue that the NPO expects to earn from royalties over the next 20 years to a single current value. The NPO chooses the present value technique. As there are no observable inputs the NPO estimates the amount of revenue that it expects to receive by:

(a) obtaining historical information about royalties earned (provided to it by the supporter); and

(b) forecasting future revenues based on its missional plans to use the copyright material that takes account of the historical information.

The NPO then discounts the forecasted revenue to take account of the time value of money. This creates a present value that is the copyright's fair value.

Basis for conclusions

Section 12 – Fair value measurement

……….

BC12.3 The *IFRS for SMEs* Accounting Standard on fair value measurement does not specifically consider when fair value ~~is~~ can be used to estimate the deemed cost of a donated asset on initial recognition. The existing guidance can, however, be applied to the subsequent measurement of such assets. The Technical Advisory Group (TAG) discussed the importance of the concept of service potential for NPOs. 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 could be considered in a future phase of INPAG development.

BC12.4 To assist NPOs, a small amount of application guidance has been added that sets out how the fair value hierarchy is likely to apply to NPO assets and liabilities. This includes the use of a level 3 input for a fair value measurement when ~~related to~~ measuring the 'deemed cost' of donated item of inventory and other donations in-kind. It mirrors the application guidance to Section 13 *Inventories*, and was considered preferable to adding text to the core guidance. The Secretariat views this additional guidance as a consequential change also arising from Section 23 Part I *Revenue from grants and donations*.

BC12.5 This application guidance was amended following feedback from respondents to Exposure Draft 3. Additional guidance was added to clarify what is necessary to identify the principal or most advantageous market, given feedback about access to such markets. Clarifications were also made to confirm that donated assets could be part of assets held at all levels of the fair value hierarchy.

……..

BC12.6 Respondents to ED 3 raised questions about the interplay between measurements based on market prices and 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. As agreed with TAG members the application guidance to Section 12 provides adaptations that recognise differences arising for donated assets. Donated assets may have a specification that is greater than an NPO would otherwise have purchased and is greater than the asset's operating requirement. INPAG allows such assets to be measured with reference to the value to the NPOs (its service potential) rather than with reference to observable inputs. The varying nature of restrictions on donated assets imposed by donors might be of a nature that does not prevent an asset from being measured at its highest and best use. Restriction in this context is not the same as a restriction in G12.5. The Secretariat having considered these responses is of the view that these adaptations remain valid.

....

BC12.9 Respondents to ED3 raised concerns about whether the fair value measurement principles are relevant to NPO operating models that rely on volunteers and gifts, as well as the challenges of measuring heritage assets, cultural assets or assets held for preservation. The Secretariat proposes to consider this feedback when this section is reviewed in a future edition of INPAG.

BC12.~~7~~10 The implementation guidance included as part of the *IFRS for SMEs* Accounting Standard has been moved to the INPAG Implementation Guidance. All examples could be relevant to NPOs, except perhaps example 2 and additional examples have been added to cover volunteer time and a donation that exceeds the operating requirements of an NPO. Following feedback from respondents to Exposure Draft 3 a further example relating to an intangible asset was added. The terminology in the examples reflects that in INPAG.

Section 17 – Property, plant and equipment

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BC17.6 Respondents who provided feedback on Section 36 *Fund accounting* also provided feedback on property, plant and equipment. These respondents were concerned to ensure that property, plant and equipment whose use is restricted to specific purposes is transparent in the financial statements. This is important to understand the extent to which NPOs are freely able to use its assets in meeting its missional objectives and where this is limited. NPOs can provide this information if it is useful to the users of its financial statements, but without introducing this as a requirement there would be a lack of consistency and potentially transparency. The Secretariat views this as consequential amendment from the introduction of fund accounting. As a consequence, a new disclosure has been added to require the disclosure of aggregate information about property, plant and equipment that is subject to restrictions to specific purposes by donors or grantors. NPOs may provide further information about these assets in the notes to the financial statements on in its narrative reporting.

Appendix C – Extracts from the feedback received

Feeback received on SMC 7a)

Comment	Secretariat response
Comments from those that agreed	
Yes, this is useful. I have the following additional comments: G12.6 states that "The NPO must have access to the principal (or most advantageous) market at the measurement date." I recommend making it clear that, if the NPO does not have such access, it may not apply fair value measurement.	The Secretariat is of the view that an NPO access the principal or most advantageous market available to it. As this Section has not been fully reviewed the Secretariat does not propose making an exception at this point (see main paper) but has proposed additional guidance.
We agree. More guidance will be required where there is no data or where there is scarce or unreliable information	The Secretariat agrees that additional Implementation Guidance may be useful where there is scarce or unreliable information.
Most of them agree, and indicated that the best estimate of management should be considered in valuation; this is practical for developing countries where getting level one and level two data for fair value is often a challenge	The Secretariat is of the view that measurement should be provided in accordance with Section 12 . Management needs to generate its best estimate based on the information available and subject to the requirements of Section 12. This point will be made in the Implementation Guidance.
Yes, it's useful. However maybe it also should include the use of "1" for invaluable asset such as historical assets. For example universities may receive donations in-kind of rare book collections which is very difficult to get the fair value	The Secretariat notes the challenge in applying fair value measurement for some historical/heritage assets whether or not they have been donated. The Secretariat proposes that this is considered as an NPO specific issue in the second edition of INPAG. The Secretariat notes that assets held for preservation is also an issue for the public sector and is considered in IPSAS 45 *Property, plant and equipment*. The Secretariat will point to IPSAS 45 in the Implementation Guidance. The Secretariat does not support the use of nominal values.
Very useful, It will provide us more guidance and enhance consistence and fair representation of the balance sheet elements	Noted
Drafting changes to Example 6 to address circumstances where there are no doctors with equivalent experience – and the premise	The Secretariat will update the example to address these points.

that doctors in country B will not have such experience.	
Potential Improvements: Expand Illustrative Examples: Including more diverse and detailed examples could further enhance understanding. For instance, examples covering a wider range of asset types (e.g., intangible assets, specialized equipment) or different types of restrictions could be beneficial.	The Secretariat understands the desire for more examples. Consistent with previous discussions with the TAG, the Secretariat only proposes to add examples whether they illustrate a principle or concept. The Secretariat proposes to add an example for intangible assets. Other illustrative examples will be made available through education materials to be made available post the publication of INPAG.
Yes, the fair value hierarchy is clearly explained and useful for NPOs. The illustrative examples for valuing in-kind donations provide clarity, which is often a challenging area for non-profits. Expanding these examples to include common donated assets like equipment and services would further improve the guidance. This would encompass a broader range of scenarios that NPOs regularly face, clarifying the applicability of fair value principles in these situations.	The Secretariat understands the desire for more examples. Consistent with previous discussions with the TAG, the Secretariat only proposes to add examples whether they illustrate a principle or concept. The Secretariat proposed to add an example for intangible assets. Other illustrative examples will be made available through education materials to be made available post the publication of INPAG.
Yes, the guidance on the fair value hierarchy is clear and useful, particularly for donated assets where valuation can be complex. The illustrative examples help to clarify the process for valuing in-kind donations. However, it could be further improved by including more examples specific to international NPOs, such as the valuation of donated services or use of facilities.	The Secretariat understands the desire for more examples. Consistent with previous discussions with the TAG, the Secretariat only proposes to add examples whether they illustrate a principle or concept. The Secretariat proposed to add an example for intangible assets. Other illustrative examples will be made available through education materials to be made available post the publication of INPAG.
Yes It could be improved by removing any reference to present value as it relates to time value of money, or discount rates from future cashflows, which are not relevant for NPOs and excessively complicated. (G12.15, G17.14, G20.5, G20.9, G20.10, G20.21, G20.23, G22.9, G27.9, G27.15, G27.20). The requirement in G12.28 to disclose the hierarchy level (1,2, or 3) used to arrive at fair value of donated assets will likely lack meaning for the majority of users.	The Secretariat notes this feedback. Acknowledging that present value calculations can be complex, the Secretariat does not have an evidence base that this is not relevant to NPOs. As this section is being updated for consistency with modified INPAG sections only, no further changes are proposed at this point. The feedback provided will be considered when a full review of these section are carried out in future editions of INPAG.
Accounting for assets for preservation. For non-profit organizations, there may be a very	The Secretariat acknowledges points raised regarding the valuation of assets held for

important distinction of assets. Museums also have a mission to responsibly preserve and pass on the heritage of humanity to future generations. There are both collections for display, and collections purely for preservation in non-profit museums. …these assets, do not generate future revenues…. but these assets generate future expenses for maintenance, such as warehouse costs for preservation. Also, since these assets will not be sold in the future, there is no need to measure their value. In particular, there are many heritage collections related to Gods. If we think globally, there are many Gods in various religions. If the items belonging to one God were to be more expensive (more valuable) than the items belonging to another God, it would cause conflicts between people. Therefore, I think that these assets should not be measured. We give up comparability of such kind of collections. Therefore, collections for preservation should be treated separately from collections for display in accounting. Items stored for preservation should not be listed as values, but rather just the names of the items should be listed in the notes. I propose these assets should be called "infinity assets". This is the same treatment that a distinction, in for-profit accounting, is made between held-to-maturity(HTM) and other securities.	preservation. This topic was not prioritised for the first edition of INPAG, and the Secretariat proposes that this is considered as an NPO specific issue in the second edition of INPAG. The Secretariat notes that assets held for preservation is also an issue for the public sector and is considered in IPSAS 45 *Property, plant and equipment*. The Secretariat will point to this IPSAS in the Implementation Guidance.
Yes, it is. However other Funding Partner organisations like EU and BMZ do not like having in-kind services recognized. Maybe this is something that Humentum would need to engage them in these draft processes as their requirements and inputs are key as well	The Secretariat notes this feedback and will develop further outreach materials for funders alongside the publication of INPAG. The Supplementary statements can be used to separate in-kind donations.
Clarify Complex Valuation Situations: While the guidance covers many scenarios, it might benefit from additional clarification on particularly complex situations, such as assets with significant restrictions or those acquired through unique donation arrangements. Integration with Broader Frameworks: A clearer connection to broader accounting frameworks or guidance that NPOs might be using could help integrate fair value	The Secretariat notes these points. The Secretariat proposes to develop education materials to sit alongside INPAG. The illustrative examples in INPAG are intended to illustrate the key concepts and principles rather than to cover a wide range of scenarios. INPAG has been developed from the *IFRS for SMEs* Accounting Standard, which is itself

measurement into their overall financial reporting processes more seamlessly. Update with Current Market Practices: Regular updates to reflect current market practices and changes in valuation techniques could ensure that the guidance remains relevant and practical for NPOs dealing with evolving market conditions.	based on IFRS. It is not clear what other accounting frameworks are being considered by the respondent here. INPAG will be periodically updated, with the intention that the application of fair value for NPOs is specifically considered in subsequent editions. Education materials can also be updated where relevant.
Yes. The section and associate illustrative examples are clear and should be useful. I note that G12.21 refers to G11.17(c) and G11.65(b). These both discuss financial instruments. Is similar advice required for non-financial assets (for example a cross-reference to G16.11)?	The Section 12 text is largely as per the *IFRS for SMEs* Accounting Standard with changes made only to align with modifications to other INPAG Sections. It does not generally allow the use of undue cost or effort provisions, but it does apply where other sections permit its use such as at G11.17 (c) and G11.65 (b). As Sections 12, 16,17 and 18 have not been prioritised for review, the Secretariat does not propose to introduce new exemptions based on undue cost or effort.
The Section 12 application guidance in the INPAG, … is indeed useful. … The guidance addresses the unique challenges NPOs face, such as valuing social use or heritage assets that do not have observable market prices. AG12.5 and AG12.6 offer valuable insights into valuing assets with restrictions, emphasizing that fair value should reflect the asset's usage under those restrictions, which is often a nuanced aspect of NPO accounting. Overall, the application guidance in Section 12 provides a solid foundation for fair value measurement in NPOs, with room for further enhancement to address the evolving needs and complexities in the sector.	Noted
Section 12 of INPAG provides a clear framework for applying the fair value hierarchy to non-profit assets and liabilities. This hierarchy, modified from various accounting models, is especially useful for non-profit organizations dealing with donated assets. The examples presented assist NPOs in understanding how to use the fair value hierarchy when measuring donated products and services, which can be difficult for non-profits. These examples demonstrate how different sorts of donations, such as	Noted

volunteer time or donated property, might be valued, making the guidance more practical and accessible.	
Comments from those that disagreed	
In Example 5– Donation of an asset that has a specification greater than required for operations, the calculation of fair value does not apply a market valuation, suggesting that market value is not relevant to the NPO in measuring the fair value of the donated office space. We are not convinced that this is correct, are concerned that this is not the appropriate application of a Level 3 valuation, and also question why the fair value of most donations in-kind would not be determinable at Level 1 or Level 2.	This example reflects the adaptation in the Application Guidance that where a donated asset cannot be sold or rented to another party, the asset should be valued with reference to its service potential rather than market value. This is a specific adaptation of the principles in Section 12. The Secretariat agrees that it may be possible to determine donations in-kind at level 1 or 2, with this dependent on the specific donated item.
No. The examples are very specific and would not necessarily apply to organizations that will be using these accounting standards or would be very difficult to do so. Example 1 – Includes a very complex analysis that would be difficult for small to medium NGOs (e.g. On the basis of that development and recent zoning and other changes to facilitate that development, the NPO determines that the land currently used as a site for a factory could be developed as a site for high-rise apartment buildings [...]). Example 4 – Requires an NGO that received a land that per donor requirement requires to be used by the association as a playground in perpetuity. The example suggests that the NGO would need to do a legal review to determine if the land could be sold regardless of donor requirement and adjust the value of the donated land accordingly. First, would require significant efforts for the NGOs therefore limit adoption to the INPAG but also as a donor, I feel that the example raises ethics considerations. Example 6 – Donations in services: Many large NPOs receive significant number of in-kind contributions (volunteers). Although the example can be relevant for a small NGO that has one volunteer employee, it would not address the requirement of a larger NGO that	As this section of INPAG was not prioritised for review in this edition of INPAG, all of the examples are as per the *IFRS for SMEs* Accounting Standard, with slight revisions to terminology. The Secretariat acknowledges that carrying out fair value measurement can be complex. The overall requirements for NPOs and the resulting examples will be reviewed for a future edition of INPAG. The Secretariat notes the ethical concerns raised regarding example 4, but this is not the intent. The intent is to understand the rights held by the NPO and based on those rights how the asset should be valued. The examples in INPAG are intended to illustrate a principle or concept. The Secretariat acknowledges that this will not cover all scenarios, including more complex scenarios. Education materials will be made available post the publication of INPAG to provide further support.

would have multiple volunteers with different backgrounds, etc.	
INPAG, in common with other adaptive approaches, when it uses fair value it also imports the underlying conceptual thinking. How alien this can be is reflected in the terminology used: 'The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs)'. An alternative approach would be to re-express these terms in a manner arguably more fitting for the NPO context. Market price- the price the NPO has recently paid or would have paid for the item. Similar market price- the price of an item that is similar or closely resembles the item and which is a price that has been recently paid or would have paid for the similar item. Non-market valuation- where the item is not actively traded the value that the NPO considers best reflects the value of the item using readily available information such as the costs incurred by a donor, the costs of creating a similar item, an insurance valuation or a judgment by an experienced valuer, or the application of a measure widely adopted in the jurisdiction such as a minimum wage. The logic of valuing things is a commercial for-profit one since for a commercial undertaking a gifted item saves on cost and so enhances the capability to pay dividends- considerations irrelevant to many NPOs. Arguably this for-profit approach fails to really reflect the business model of NPO's reliant on volunteers and gifts.	Fair value was not prioritised for review in this edition of INPAG. As a consequence, the application of fair value for NPOs more generally has not been considered and amendments are limited to those necessary to align with other sections of INPAG. The Secretariat proposes to include a full review of the application of fair value in a non-profit context in future editions of INPAG. The Secretariat notes that any future proposals will need to be consistent with the concepts and pervasive principles underpinning INPAG. This feedback provided will be considered when in this development.
In the UK the adaptive approach to for-profit accounting permits heritage assets not to be valued- see UK Charities SORP paragraph 18.17. The premise being whether it is possible for a reliable valuation to be obtained but arguably even this view is flawed since it fails to consider the real worth of the item lies not in realising its cash potential but enjoying its existence for	The Secretariat acknowledges this point. Fair value and property, plant and equipment were not prioritised for the first edition of INPAG and the Secretariat proposes that this is considered as an NPO specific issue in the second edition of INPAG. The Secretariat notes that the measurement of heritage assets is also an issue for the

example an artwork, a landscape or a natural habitat. In truth most things can be sold since the market price is simply what someone is willing to pay for it at the time but this may not really reflect its true worth ie service potential.	public sector and is considered in IPSAS 45. The Secretariat will point to IPSAS in the Implementation Guidance.
We previously noted some fundamental disagreements in this area in our response to ED2, in particular on the subject of measuring donated services such as volunteer time at fair value. In addition, we note that paragraph AG12.2(c) suggests that the majority of assets held for delivering NPO objectives will be part of Level 3 in the fair value hierarchy. This does not appear to be correct as we would expect that most donated assets should be at Level 1 or Level 2 fair value. For instance, we would expect an NPO to be able to measure a donated minibus, or donated laptops, under Level 1 in the fair value hierarchy. We are unsure how it is possible, as per proposed paragraph AG12.2(b), for a property that is held for social purpose also to meet the definition of an investment property. The wording of proposed paragraph AG12.7 is confusing. It is the deemed cost of the donated asset which is its fair value, not the other way around.	The Secretariat notes the feedback regarding donated services and this has been considered in the analysis of responses to ED2. The Secretariat agrees that some donated assets can be measured using inputs at Level 1 or level 2 and will amend the text to reflect this. The Secretariat agrees that it is unlikely that a property held for a social purpose also meets the definition of an investment property and will amend the example to avoid confusion. The Secretariat agrees with the feedback on AG12.7 and will make drafting changes.
No, I do not agree. The guidance on restrictions appears to be inconsistent with paragraph G12.5. That is, the restriction needs to go with the asset, and that the restriction is not voluntarily imposed within the control of the reporting entity. I did not understand what paragraph AG12.6 "the location or technical specifications" meant in the context of the paragraph. Paragraph AG 12.9 that refers to not taking into account restrictions does not appear consistent with paragraph G12.5. While I agree with the reasoning of paragraph AG 12.10 in referring to the value to the donor – I believe that it would be more appropriate to use the carrying value to the donor, not cost (which could be historical original cost).	The Secretariat notes the point raised on restrictions. This adaptation specifically allows the use of service potential rather than market value to reflect the value of the asset to the NPO and the Secretariat continues to consider that this is appropriate. The Secretariat agrees that the drafting of AG12.9 is not clear and will make amendments to reflect the application of restriction in this context. The Secretariat agrees that carrying value to the donor can be used, acknowledging that this information may not be available to an NPO.
Comments from those that neither agreed nor disagreed	

Sections 12, 16, 17 and 18. In general, feedback from our members in the NFP sector indicates that the use of fair value is a complex area and difficult to apply in practice. Assumptions and inputs for using fair value such as highest and best use, exit value and market participant assumptions are not readily available and therefore perhaps less practical in the NFP sector. We therefore appreciate the inclusion in the INPAG of clear implementation guidance and examples of highest and best use, restrictions, donated assets and most advantageous market, which would be our key areas of concern. However, we still have concerns about the extent to which the use of level 3 inputs will be required and so recommend that more consideration be given to the identification of assets where the temporary use of deemed cost can be justified until such time as the fair value chapter is comprehensively reviewed for its suitability in the NPO sector. An example of assets where this difficulty arises would be concessionary leases and other similar arrangements involving rights to use assets at concession rates.	As noted by the respondent fair value was not prioritised for review in this edition of INPAG, with the application of fair value more generally for NPOs not yet considered. The Secretariat proposes to include a full review of the application of fair value in a non-profit context in future editions of INPAG. The Secretariat notes the suggestion that deemed cost is used for certain transactions but the Secretariat is of the view that fair value is often used to determine the deemed cost of certain assets or liabilities. This edition of INPAG does not specifically address concessionary leases or right to use assets at concessionary rates as this was not a priority topic for the first edition of INPAG and therefore it is not possible at this time to develop a pragmatic exception.

Feeback received on SMC 7b)

Comment	Secretariat response
Comments from those that agreed	
Intangible assets- the inclusion of service potential in the recognition process is welcome and the use of the fair value approach to identify a deemed cost is understandable because of the premise on which IFRS for SMEs is based but (as noted above) it is debatable that this approach is a fair representation for some kinds of gifted intangible asset, for example heritage musical artistic recordings, films or digital libraries intended for free public use as a cultural asset.	The Secretariat notes this feedback.
Yes for PPE because this is the for-profit logic that underpins the adaptive approach to derive a deemed cost but does it really reflect	The Secretariat notes the points on heritage and cultural assets, and those raised in

the operating model of all NPO's? By character heritage assets and cultural artifacts may not be easily valued in this way and they are not held for financial gain. If true for these assets is not equally true for other kinds of PPE asset? A better approach would be to include intention as an aspect of the accounting treatment and allowing the option not to value where the motive of the donor and the intention of the NPO is to simply either hold the gifts for others to enjoy or to onward gift the items to beneficiaries; instead a narrative disclosure would be more appropriate than valuation of such gifted item	response to SMC7 a). This feedback will be considered in the further editions of INPAG
Investment Properties Yes Agree Property, plant and equipment Yes, I agree, but the case of the initial measurement of subsidies received in the form of goods must be specified, since donations are not only received in the form of goods. Intangible Assets Yes I agree	The Secretariat notes the point on subsidies. Subsidies will only be captured by Section 17 where they meet the definition of an item of property, plant and equipment . Section 23 captures the receipt of all donations and is expected to be sufficient.
Most of them agree. It is recommended that the option of use of replacement cost to be considered.	The Secretariat notes that AG12.10 allows the use of replacement cost. The Secretariat does not consider a change is necessary to Section 17 as this specifically cross refers to Section 12.
Yes. Para G16.8 is useful for donated investment property as are para 17.10 for property, plant and equipment and G18.12for intangibles. It is important that there is guidance for donated assets and those funded by grants as these are common transactions for NPOs.	Noted
Yes agree. However, If the cost to measure the fair value will overweight the benefit, the value of "1" should be allowed.	Section 12 of the *IFRS for SMEs* Accounting Standard does not generally allow the use of undue cost or effort provisions, but it does apply where other sections permit its use. As Sections 12, 16, 17 and 18 have not been fully reviewed, the Secretariat does not propose to introduce new exemptions based on undue cost or effort. The Secretariat does not agree with the use of nominal values.
Yes, the additional guidance is well-structured and relevant for NPOs. It covers the essential areas for valuing donated assets and aligns	Noted

with the fair value principles established in other accounting frameworks. The guidance for valuing donated assets using fair value follows worldwide accounting standards and gives clear instructions for non-profit organizations, guaranteeing transparency and uniformity in financial reporting.	
Agree Propose to insert: When the value of a donated asset is immaterial or when it is difficult to assign a fair value or historical value, but the asset is usable and have economic value the asset may be recognized at nominal value (sufficient disclosure might be given in the notes to the accounts).	An NPO will need to determine its accounting policies to decide whether a donated asset is immaterial. The Secretariat does not support the use of nominal values.
The additional guidance provided for grants is helpful. It is important for the NPO to understand how to apply the fair value hierarchy in these specific situations, as in-kind donations are common in NPOs.	Noted