Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGFG07 – 06
25 March 2025 – Virtual

Section 38 Transition to INPAS

Summary	This paper summarises and provides a high-level analysis of consultation responses to the Specific Matters for Comment (SMCs) on Section 38 *Transition to INPAS*, along with the Secretariat's responses.
Purpose/objective of the paper	The purpose of this paper is to analyse the responses to the SMCs on ED3, Section 38, and to seek TAG members' views on the final guidance, incorporating respondents' feedback on specific proposals.
Other supporting items	N/A
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Actions for this meeting	**Comment and advise on** the Secretariat' proposed responses to the feedback on this section, specifically**:** i. minor revision to the authoritative guidance to clarify compliance statement requirements for NPOs; ii. a minor amendment in the list of frameworks that an NPO may transition from; and iii. the proposed additional text in the Basis for Conclusion.

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Section 38 Transition to INPAS (Response to ED3)

1. Introduction

1.1 This paper:

- summarises and analyses the consultation responses to the Specific Matters for Comment (SMCs) on Section 38 *Transition to INPAS* (see Appendix A);
- outlines the Secretariat's responses to the feedback; and
- seeks TAG members' advice on the issues raised to finalise this section.

2. Background

2.1 Section 38 *Transition to INPAS* applies to all NPOs adopting the framework for the first time, regardless of whether they previously prepared financial statements under a different accrual accounting framework or using the cash basis. While it is based on Section 35 of the final Third Edition of the *IFRS for SMEs* Accounting Standard, INPAS introduces several key modifications to ensure its suitability for NPOs:

- A requirement for narrative reporting has been introduced as part of first-time adoption. INPAS mandates minimum narrative disclosures alongside financial statements. To facilitate transition, NPOs may provide a compliance statement for financial statements alone <u>during the first two years</u>. Beyond this period, full compliance requires narrative reporting.
- The fair value basis as deemed cost has been extended to financial assets, including endowments, as well as inventories. The standard also clarifies that heritage assets may be measured at fair value upon adoption.
- NPOs must distinguish between restricted funds and unrestricted funds in their accumulated funds, adding to the required disclosures at adoption.
- The list of transactions exempt from retrospective application has been modified.
- Terminology has been adapted to refer specifically to NPOs, ensuring consistency with other INPAS sections rather than the *IFRS for SMEs* Accounting Standard.

2.2 These amendments reflect consequential impacts from other INPAS sections only, as this Section was not prioritised for full review in this edition of INPAS.

2.3 An ED3 survey provided insight into the transition requirements, through a question about the ease of implementing grant agreement requirements. Based on responses from 121 participants, the expectation was as follows:

- 9% of respondents thought it would be easy;
- 61% thought it would be manageable;
- 26% thought it would be difficult or very difficult; and

- 4% were unsure.

2.4 The survey results suggest that while a majority (70%) of respondents considered the transition requirements for grant agreements either easy or manageable, a significant proportion (26%) anticipated challenges. This indicates that while the requirements may be broadly feasible, additional guidance or support may be necessary. The Secretariat proposes developing educational materials to address these anticipated challenges.

2.5 Specific Matters for Comment (SMCs) in ED3 were:

- Question 6(a): Do you agree with the pragmatic approaches proposed for the first time adoption of INPAS? If not, what are the practical challenges that are likely to be experienced? (References: G38.5–G38.6).
- Question 6(b): Do you agree that compliance with INPAS can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not? (References: G38.11–G38.12).

2.6 The next sections summarise the responses to the SMCs, highlighting areas of agreement and concerns raised by respondents. This analysis has informed the final proposals for INPAS Section 38 contained in TAGFG07 – Annex.

3. **Pragmatic approaches for first-time adoption of INPAS**

3.1 A strong majority (98%) of respondents (42 out of 43) agreed with the pragmatic approaches proposed for first-time adoption of INPAS. There was no disagreement, and one respondent neither agreed nor disagreed.

3.2 Five of the respondents who supported the proposed transition approaches emphasised the importance of implementation flexibility. They noted that this flexibility helps NPOs navigate complexities without feeling overwhelmed.

3.3 One respondent specifically supported using fair value as the deemed cost during transition, while another pointed out challenges in determining the fair value of assets and liabilities due to the lack of an established market price for property, plant, and equipment.

3.4 Two respondents highlighted broader implementation challenges, including difficulties in collecting historical financial information, updating accounting systems, and overcoming a lack of experience in applying INPAS.

3.5 Another respondent identified a lack of competence in financial reporting among managers and a general lack of awareness of its importance. Two respondents stressed the need for additional training resources, such as webinars and online modules, to help smaller NPOs understand and implement INPAS. One also emphasised the importance of technical support and training for both implementers and regulators.

3.6 The respondent who neither agreed nor disagreed highlighted practical challenges in developing countries. These include a lack of sufficient professionals to support the conversion process and difficulties for small NPOs in investing in necessary conversion support. The respondent emphasised the need for a series of training programs and consultations to facilitate the transition. Additionally, the respondent suggested that donors should provide incentives by harmonising their reporting requirements, encouraging NPOs to adopt INPAS.

3.7 The Secretariat acknowledges the transition challenges. The Basis for Conclusion reaffirms the commitment to supporting the transition process through educational resources and additional guidance materials.

3.8 One respondent, while agreeing with the pragmatic approach for first-time adoption, found Section 38 overly complex due to its mandatory requirements and prescriptive measures. The respondent specifically questioned the necessity of G38.11(which sets out where retrospective accounting is not required), suggesting that users should have maximum flexibility as long as their first financial statements disclose any departures from INPAS, particularly regarding prior-year figures. The Secretariat believes that G38.11 is necessary to maintain consistency, comparability, and clarity in first-time adoption.

3.9 Another respondent who supported the pragmatic approach emphasised the need for disclosures on adoption, adaptation, or convergence in the financial statements. The Secretariat considers that the respondent's concern is already addressed in G38.14, which requires NPOs to disclose how the transition from their previous financial reporting framework to INPAS has impacted their financial position, performance, and cash flows.

3.10 A respondent highlighted the importance of securing buy-in from major donors, such as the EU, UN agencies, and the World Bank, to encourage wider adoption of INPAS among NPOs. The Secretariat recognises the importance of donor buy-in for INPAS adoption and has actively engaged with key international donors to align expectations. These efforts will continue post-publication to support wider implementation.

Question 1: Do TAG members agree with the Secretariat’s responses to the feedback on SMC 6(a)?

4. Two-Year Transitional Period

4.1 Of the 44 respondents, 38 (86%) agreed, with the proposals for a two-year transition period, 4 disagreed, and 2 neither agreed nor disagreed.

Comments from respondents who agreed:

4.2 One respondent who agreed noted that the two-year period would allow NPOs to develop suitable financial comparatives but stressed that narrative reporting should keep pace, emphasising the importance of requiring narrative reports by the end of the transition period.

4.3 Another respondent who supported the transitional period highlighted that many international frameworks, such as IFRS and US GAAP, include similar provisions to help entities adapt to new standards.

4.4 One respondent, while agreeing with the two-year transition period, expressed concern that paragraph G38.5 (which sets out the approach to expressing compliance with INPAS) appeared contradictory. The respondent questioned whether an NPO that fully complies with INPAS from the outset should be able to make a statement of full compliance immediately rather than waiting until the end of the two-year period. They also suggested that, after the transition period, NPOs that meet all requirements should be able to issue either an unreserved statement of compliance or an 'except for' statement where applicable.

4.5 The Secretariat agrees that this could be clearer. G38.5 has been revised and now explicitly states that an NPO that meets all applicable requirements from the outset can issue a full statement of compliance with INPAS, provided it complies with paragraphs G38.7 to G38.19, including both financial statements and a narrative report. The transitional arrangement allowing NPOs to make an initial compliance statement for financial statements only, remains unchanged.

4.6 One respondent who agreed recommended clearer guidance on the specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard. They also suggested explicitly stating whether an NPO must automatically follow retrospective application under Section 10 or has the option to elect transition provisions under Section 38. Additionally, they emphasised the need to clarify whether this choice is at the NPO's discretion or subject to specific conditions. The respondent further proposed that the rationale for the chosen approach be disclosed, rather than only identifying which approach was applied, as required under G38.15. They were of the view that greater prescription would help prevent inconsistencies in reapplication and ensure NPOs fully understand their obligations when returning to INPAS compliance.

4.7 The Secretariat proposes that, as a principles-based framework, INPAS does not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard. This approach ensures flexibility across diverse NPO contexts. The requirement in INPAS is consistent with the *IFRS for SMEs* Accounting Standard, which allows entities that previously applied the standard to either follow the transition provisions or apply retrospective application under Section 10. Given this section has not been fully reviewed, the Secretariat is of the view that the approach should remain aligned.

4.8 While the Secretariat acknowledges the suggestion to require disclosure of the rationale for the approach adopted, it does not believe this needs to be added. The existing disclosures are sufficient to ensure transparency without imposing additional burdens on NPOs.

4.9 The Basis for Conclusions will be updated to clarify that INPAS does not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard. Additionally, the Secretariat will highlight that while not required, NPOs may choose to disclose the rationale for their chosen approach when reapplying INPAS after ceasing compliance, enhancing transparency and consistency in financial reporting.

4.10 One respondent recommended amending G38.4(b) to replace “national requirements” with “national or other requirements”, noting that this would better reflect the circumstances of NPOs currently applying Cash-basis IPSAS. In response, the Secretariat proposes amending G38.4(c) to explicitly include IPSAS standards, ensuring that NPOs transitioning from this framework are appropriately captured.

4.11 Three respondents who agreed with the two-year transition period emphasised the need to accommodate jurisdictional differences. One described it as pragmatic for jurisdictions with little or no financial reporting history but felt it should not apply where equivalent statutory requirements exist. Another supported the transition but noted that some jurisdictions may need different timelines based on their characteristics. The third respondent agreed but highlighted challenges such as asset valuation costs, a shortage of professionals, and conversion burdens, making immediate adoption difficult. They recommended that regulatory bodies be allowed flexibility in developing structured roadmaps for implementation.

<u>Comments from respondents who disagreed</u>:

4.12 The four respondents who disagreed expressed reservations about whether two years is sufficient for full implementation. They noted that requiring full compliance within this timeframe could disproportionately burden smaller NPOs, particularly those transitioning to accrual-based accounting. They proposed:

a) extending the transition period for narrative reporting; and

b) introducing differentiated requirements for smaller NPOs, while acknowledging the challenge of defining them in an international context.

These comments are similar to the feedback on the transition period proposed for narrative reporting in ED1. Respondents to ED1 provided a range of views, with some of the view that there should not be a transition period for narrative reporting given the minimal requirements and others that the transition period was too short.

4.13 The Secretariat recognises the importance of flexibility in implementation. However, the two-year transition period is intended to provide a balanced approach that supports jurisdictions with limited financial reporting history while maintaining comparability and consistency across NPOs. While this period applies universally, regulators and standard-setting bodies have the flexibility to develop tailored implementation roadmaps, introduce phased approaches, or provide additional guidance to support NPOs within their jurisdictions. The Basis for Conclusions will set the expectation that standard setters and/or regulators encourage adoption by the end of the two-year transition period and also consider additional support mechanisms for smaller NPOs. The new paragraph is included in Appendix B.

Comment from respondent who neither agreed nor disagreed:

4.14 One respondent who neither agreed nor disagreed raised concerns about the potential implications of transitional compliance with INPAS. The respondent questioned whether the reliability of financial statements might be affected when full INPAS compliance is not achieved, particularly in terms of user expectations during the transitional period. The respondent also inquired about the consequences if an NPO is unable or does not prioritise full compliance for an extended period. The respondent further considered the potential impact on auditors who use INPAS as a benchmark, particularly in relation to audit risk, audit strategy, and the wording of modified audit opinions, as well as how these factors might influence users' perceptions of financial statements. The Secretariat acknowledges these concerns and will monitor the transitional provisions as INPAS is adopted.

Question 2: Do TAG members agree with the Secretariat's responses to the feedback on SMC 6(b), the proposed minor amendment to include financial statements prepared under international standards in G38.4(b), and the addition to the Basis for Conclusions?

5. Basis for Conclusions

5.1 The Basis for Conclusion has been updated to reflect the points raised in paragraphs 3 and 4 above. It also includes amendments to re-order the content to reflect the structure of Section 28, reflect the move to INPAS and other terminology changes made since ED3 was issued.

5.2 The updated Basis for Conclusions is in TAGFG07 – Annex.

6. Next steps

6.1 The text will be updated to reflect any changes to the Third edition of the IFRS for SMEs standard which is currently being finalised and to reflect the feedback from TAG members. The updated version will be included in the pre-ballot draft to be circulated in April 2025.

March 2025

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Appendix A Summary of Feedback Responses to SMCs for Transition to INPAS

ED3 SMC 6 a) Do you agree with the pragmatic approaches proposed for the first time adoption of INPAS? If not, what are the practical challenges that are likely to be experienced.	**Response**	**Number**	**% of those who responded**
	Agree	42	98%
	Disagree	-	-
	Neither agree nor disagree	1	2
	No Response	20	-
		63	100%

ED3 SMC 6 b) Do you agree that compliance with INPAS can be expressed in relation to the financial statements only for a two-year transitional period? If not, why not.	**Response**	**Number**	**% of those who responded**
	Agree	38	86%
	Disagree	4	9%
	Neither agree nor disagree	2	4%
	No Response	19	-
		63	100%

ED3 survey: How easy will it be to implement the transition requirements for grant arrangements when first adopting INPAS?	**Response**	**Number**	**% of those who responded**
	Easy	11	9%
	Manageable	74	61%
	Difficult	25	21%
	Very difficult	6	5%
	Not sure	5	4%
	TOTAL	121	100%

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Appendix B – Updates to the drafting

Authoritative Guidance

Section 38 – Transition to INPAS

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G38.4 An NPO's first financial report that conforms to this Standard is the first annual financial report in which the NPO makes an explicit and unreserved statement in that financial report of compliance with INPAS. A financial report prepared in accordance with this Standard is an NPO's first such financial report if, for example, the NPO:

(a) did not present a financial report for previous periods;

(b) presented its most recent previous financial statements under national requirements that are not consistent with this Standard in all respects; or

(c) presented its most recent previous financial statements in conformity with **IFRS Accounting Standards** **or IPSAS standards**.

G38.5 An NPO that makes an explicit and unreserved statement of full compliance with INPAS in its financial report must meet all of the requirements of paragraphs G38.7 to G38.19, providing both financial statements and a narrative report. As part of transitional arrangements, for the first two years following the date of first adoption of INPAS an NPO may make an explicit and unreserved statement in its financial report of compliance with the INPAS requirements for the financial statements only. ~~Where an NPO makes an explicit and unreserved statement in its financial report of compliance with INPAS it must meet all of the requirements of paragraphs G38.7 to G38.19.~~ Exceptions are not permitted for investments in **associates** or **beneficial interests** joint ventures held by the NPO.

Basis for conclusions

Section 38 – Transition to INPAS

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Application of INPAS

BC38.5 Section 38 sets out what constitutes a first financial report under INPAS. It provides examples of the situations when this might exist and references NPO's that might have previously produced its financial report using IFRS Accounting Standards. In response to feedback on Exposure Draft 3 (ED3), clarification has been provided that this paragraph also applies to financial reports previously produced using IPSAS Standards.

Transition period

BC38.8 Respondents to Exposure Draft 3 (ED3) provided feedback on this two-step approach. There remained a cross section of views about the length of a transition period or whether one was needed at all. A two-year transition period strikes a balance between flexibility and timely adoption and is intended to provide consistency and comparability across NPOs globally. While this period applies universally, regulators and standard-setting bodies have the flexibility to develop tailored implementation roadmaps, introduce phased approaches, or provide additional guidance to support NPOs within their jurisdictions, including to smaller NPOs. Given the importance placed on narrative reporting by stakeholders, adoption of narrative reporting with the two-year transition period is encouraged.

Reapplication of INPAS after ceasing compliance

BC38.9 INPAS does not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard. This approach aligns with INPAS's principles-based nature, allowing flexibility to accommodate diverse NPO contexts while ensuring consistent financial reporting practices. It is also consistent with the *IFRS for SMEs* Accounting Standard.

BC38.10 Respondents to ED3 sought clarity on whether an NPO that re-applies INPAS must automatically follow retrospective application under Section 10 or whether it may elect transition provisions under Section 38. NPOs have the option to choose between these approaches, depending on their circumstances. This ensures that organisations returning to INPAS compliance can do so in a way that minimises disruption while maintaining transparency.

BC38.11 NPOs may choose to enhance transparency by disclosing the rationale for their chosen approach, rather than only identifying the selected method, as required under G38.15. Providing this context may help build trust with stakeholders by enabling users of financial statements to better understand the reasons behind an NPO's transition decisions and promote greater consistency in financial reporting.

Procedures for preparing financial statements at the date of transition

BC38.17 Respondents to ED3 identified challenges in carrying out the procedures for first time adoption. This included the ability to carry out fair value measurements to generate the deemed costs of assets and liabilities, availability of historical information, accounting systems and lack of capability. These challenges are acknowledged. Future educational resources, and other guidance materials will be developed to help address these challenges.

Appendix C – Extracts from the feedback received

SMC 6a) Pragmatic approaches proposed for the first time adoption of INPAS	
Comments from those that agreed	**Response**
We agree with the proposed transition requirements and suggest that the project allows NPOs sufficient time to prepare for the changes - in terms of system upgrades and training of finance personnel.	Noted
Should the provision in G38.12(j) apply to other extractive activities as well as oil and gas? (In particular, I would expect some NPOs to be involved in extractive activities connected with renewable energy.) Otherwise, I agree with the proposed approaches.	The Secretariat is not aware of any NPO-specific issues related to this matter and therefore does not propose any changes.
Agree, the practical challenge that will be faced is the lack of preparedness of managers to implement this, due to a lack of competence in preparing financial reports. There is also a lack of awareness of the importance of presenting reports to the public.	The Secretariat acknowledges the challenges related to financial reporting preparedness and awareness and is looking to develop educational materials to support NPOs preparing for INPAS adoption.
Yes, the pragmatic approach to first-time adoption, including the flexibility to implement INPAS gradually, is appropriate. However, smaller NPOs may face challenges in understanding the technicalities of the transition, so additional training resources would be beneficial. The proposed approach allows for a gradual transition to INPAS, which helps NPOs manage the complexities of adopting new accounting standards without being overwhelmed. This flexibility is particularly useful for organizations that need time to adjust their accounting systems and practices to comply with INPAS requirements. Smaller NPOs may lack the resources or expertise to navigate the complexities of INPAS. Additional training resources, such as webinars, online modules, and workshops, are essential to support these organizations in understanding and implementing the new standards. This helps ensure that all NPOs, regardless of size, can achieve compliance and benefit from the new framework.	The Secretariat acknowledges the challenges and is looking to develop educational materials to support NPOs preparing for INPAS adoption, including smaller NPOs.
I agree with the principle of a pragmatic approach for first time adoption, but what is proposed in Section 38 seems very complex in terms of mandatory requirements. Prescriptive measures like G38.11 seem	The Secretariat believes that G38.11 is necessary to maintain consistency, comparability, and clarity in first-time adoption.

unnecessary – I would just give users as much flexibility as possible. So long as the first financial statements disclose any departures from INPAS with regard to prior year figures etc I do not feel this Section needs to say much more.	
Yes, I agree with the pragmatic approaches proposed for the initial adoption of INPAS, provided that the aspects considered for such adoption, adaptation, or convergence are disclosed in the notes to the financial statements.	The Secretariat is of the view that this requirement is already addressed in G38.14, which mandates that an NPO explain how the transition from its previous financial reporting framework to INPAS affected its financial position, financial performance, and cash flows.
These are pragmatic, especially allowing fair value to be considered as the deemed cost.	Noted
Agreed with the pragmatic approach proposed for the first-time INPAS adoption. Considerations to be made: During transition to INPAS, NPOs need to determine the fair value of various assets and liabilities. The grant arrangement with the donor is also another issue when it will be EFGA or OFGA. Practical challenges: This process can be difficult task as there is no established market price for property, plant, and equipment. The process of estimating the market value of these assets relies on subjective judgment influenced by market conditions, asset condition, and future cash flows, which might lead to inaccurate information. Proposed solutions: To address these challenges, how we initially incorporate the use of technology/tools like valuation software and data analytics tools that enhance the efficiency and accuracy of the valuation process in assisting in data collection, analysis, and reporting.	The Secretariat acknowledges the practical challenges in fair value estimation and the classification of grant arrangements. We will consider whether additional educational support materials would be beneficial to help NPOs navigate these complexities, particularly in applying valuation techniques and grant arrangement classifications.
The proposals on first time recognition are technically sound and there are no major comments. We also recognize that these approaches are designed to ease the transition for NPOs (allowing NPOs to adopt INPAS over time rather than all at once, reducing the complexity of initial disclosures and reporting requirements, providing exemptions or reliefs for certain requirements) In terms of practical challenges	The Secretariat acknowledges that donor buy-in is essential for encouraging NPOs to adopt INPAS. Throughout the Standard's development, we have actively engaged with key international donors to align expectations and will continue these efforts post-publication to promote adoption. The Secretariat remains committed to supporting NPOs, donors, and

Buy in from the major donors. I think a bigger push can be made to get all the big donors on board – EU / ECHO, WB, UN agencies which make grants to NPOs. Most NPOs will adopt more easily once the donors have expressed willingness to support. Technical support to ensure that training is properly cascaded to both implementers and regulators are well supported during first time adoption Financial Management systems upgrade to allow for more accurate reporting. Resource constraints, especially with the smaller NPOs, could be a hinderance. Potential overlaps with regards harmonization of NPOs financial reporting with PFM Systems as part of sustainability and Paris Declaration. INPAS knowledge Capacity gaps from external auditors that will provide assurance over the financial statements especially for smaller audit- firms.	auditors in the transition to INPAS. We will engage with stakeholders, explore targeted training initiatives, and assess where additional guidance may be beneficial to facilitate implementation.
Response a) As an auditor, I believe that the pragmatic approaches proposed for the first adoption of INPAS are useful, although it is essential to consider the following challenges: - Difficulty in collecting historical information and adapting it to the new INPAS requirements - NPOs may face difficulties in collecting the historical information required to prepare opening financial statements in accordance with INPAS requirements. This is especially true for NPOs that have not maintained formal accounting records or have used accounting methods different from those required under INPAS. - The need to update accounting systems and internal processes: NPOs may need to make significant changes to their accounting systems and internal processes to comply with INPAS requirements. - Lack of experience in applying INPAS: NPOs may have little or no knowledge on how to apply INPAS requirements.	The Secretariat remains committed to supporting NPOs through educational resources, training initiatives, and guidance materials to help address these challenges.
Comments from those that neither agreed disagreed nor disagreed	
Practical challenges in developing countries are the lack of sufficient number of professional to support the conversion and also the challenge for small NPOs in investing for conversion supports. A series of training programs, and consultation required, incentives should come from donors in harmonizing their reporting requirements so that NPOs will be encouraged to adopt.	The Secretariat remains committed to supporting NPOs through training initiatives, engagement with donors, and capacity-building efforts to ease the transition to INPAS.

SMC 6b) Two-year transitional period for compliance with INPAS	
Comments from those that agreed	**Response**
(b) Paragraph G38.5 appears contradictory. Our understanding is that to make "an explicit and unreserved statement in its financial report of compliance with the INPAS requirements for the financial statements only" appears in contrast to "rather than a statement of compliance with the full requirements of INPAS". If there is full compliance with INPAS then NPOs should be permitted to issue an explicit and unreserved statement for all periods where compliance is achieved. We agree with the 2-year compliance timeframe post transition but thereafter entities who are compliant should be able to make an unreserved statement of compliance or and except for statement if required.	G38.5 has been revised to clarify the requirements for NPOs regarding compliance statements. The revised text now explicitly states that an NPO that meets all applicable requirements from the outset can issue a full statement of compliance with INPAS, provided it complies with paragraphs G38.7 to G38.19, including both financial statements and a narrative report.
A two-year period of transition allows the development of suitable comparatives for financial reporting. I would be concerned if narrative reporting was slower to develop, but requiring narrative reports by the end of that two-year period seems to be a pragmatic and staged solution. Full compliance should not be asserted until NPOs are complying with all requirements, financial and non-financial.	Noted
We agree that compliance with INPAS can be expressed in relation to the financial statements only for a two-year transitional period. However, with respect to paragraph G38.2, we have following comments: Paragraph G38.2 is applicable in cases where NPO had applied INPAS in a previous reporting period but has stopped applying the same or was unable to meet the full requirements of INPAS. In such cases, an NPO must either apply Section 38 or apply INPAS retrospectively in accordance with Section 10, Accounting policies, estimates and errors; as if the NPO had never stopped applying INPAS. To ensure that the threshold for availability of the option to apply this section again is sufficiently tight, the circumstances in which INPAS requirements can be applied afresh by the NPOs shall be laid down. Paragraph G38.6 states that if the full requirements are not met within the two years following the date of adoption of INPAS, the NPO shall explain that it has not met the full requirements of INPAS and is unable to make an explicit and unreserved statement of compliance. This shall be the case even if the financial statements comply with INPAS. In these circumstances	The Secretariat proposes to explain in the Basis for Conclusions that, as a principles-based framework, INPAS will not prescribe specific circumstances under which an NPO that previously applied INPAS but later ceased compliance can reapply the standard, ensuring flexibility across diverse NPO contexts. Furthermore, the Secretariat proposes to emphasise in the Basis for Conclusions that NPOs can enhance transparency by disclosing the rationale for their chosen approach, rather than only identifying the selected method, as currently required under G38.15 for first-time adoption after ceasing compliance.

the NPO shall follow the requirements of paragraph G38.2. For better understanding, reference of paragraph G38.6 may also be added in paragraph G38.2, which will avoid confusion regarding situations in which paragraph G38.2 is applicable.	A cross reference to G38.2 is made in G38.6 and the Secretariat is of the view that this is sufficient.
Yes, I agree. I also recommend amending G38.4(b) as follows: "National requirements" should be "national or other requirements". (I am thinking particularly of organisations that are currently applying Cash-basis IPSAS.)	The Secretariat proposes to amend G38.4(c) to include IPSAS, ensuring that NPOs transitioning from these standards are appropriately captured.
Yes, I agree that compliance with INPAS can be expressed in relation to the financial statements only for a two-year transitional period. Allowing compliance with INPAS to be expressed in relation to financial statements for a two-year transitional period is a practical and balanced approach.	Noted
Generally, the team agree with the need a two year transition timeline. However, due to the cost and time involves in valuation of assets, and the lack of sufficient number of professionals and the cost of conversion will lead to a serious burden for NPOs, if adoption of INPAS is immediate. Hence, the regulator body, in our case AABE, should design a road map how the adoption of INPAS should proceed.	The Secretariat believes that while INPAS establishes a standardised transition period, jurisdictions and regulators (such as AABE) can develop tailored implementation roadmaps to facilitate a smoother adoption process.
Yes this is a pragmatic approach to ease the adoption of INPAS in jurisdictions with little or no history of financial reporting to stakeholders but it should not be permitted where equivalent statutory reporting has already been in place.	The Secretariat acknowledges that some jurisdictions may have equivalent frameworks, but INPAS provides a structured transition period to help NPOs align with its reporting. Regulators and standard-setting bodies can determine the best approach to integrate INPAS with existing frameworks in their jurisdictions.
GLENIF agrees that compliance with INPAS can be expressed in relation to the financial statements only for a two-year transitional period. It is important to note that the different jurisdictions that come to use this guidance may have a different transitional period, according to their characteristics.	INPAS has a standardised two-year period to promote consistency and comparability across NPOs globally. The Secretariat acknowledges that some jurisdictions may require different transition timelines based on their specific characteristics.
Yes, the two-year transitional period is reasonable, allowing NPOs to align their reporting with INPAS without being penalized during the transition. This	Noted

period provides enough time for NPOs to adjust to the new framework. Many international accounting frameworks offer transitional periods to allow entities to gradually adapt to new standards. For instance, IFRS and US GAAP often include transitional provisions to ease the implementation process for businesses and not-for-profit organizations. This practice recognizes that adapting to new standards requires time and resources. A two-year transitional period is a practical approach, providing NPOs with sufficient time to adapt their accounting practices to meet INPAS standards.	
Response b) I agree with the proposal for a two-year transition period for NPOs to adapt to the new INPAS requirements. Section 38, Transition to INPAS, recognizes that time is needed for NPOs to make the necessary adjustments. Two years is a reasonable period of time for NPOs to: - Determine the basis of preparation of financial statements. - Adapt their accounting systems and internal processes. - Train their staff in the application of INPAS. - Adjust their accounting policies.	Noted
Yes. This is sufficient time for NPOs to apply the INPAS reporting framework to their organisations. Any longer will drag the process out. There will be organisations anyway who will not be able to make the 2-year deadline anyway.	Noted
Comments from those that disagreed	**Response**
We agree that implementation should be based on providing compliant financial statements in the first instance. However, we have some reservations about the proposed phased approach and whether it is appropriate that compliance with INPAS in relation to the financial statements only is limited to a two-year transitional period. This approach may place a disproportionate burden on smaller NPOs (if indeed INPAS is intended to be used by smaller NPOs) with limited resources and capacity. Such smaller NPOs, and any other NPOs implementing accrual-basis accounting for the first time as part of the adoption of INPAS, will have just embedded new and improved practices to achieve high-quality financial reporting under INPAS. Within two years they may also have to make further significant changes to their reporting processes in order to comply with the	The Secretariat maintains that the two-year transitional period provides an appropriate balance between flexibility and timely adoption. The Secretariat acknowledges that some jurisdictions may require different transition timelines based on their specific characteristics. However, we encourage jurisdictions and standard-setters to assess whether additional support mechanisms could ease the transition for smaller NPOs.

narrative reporting requirements, if they are to claim ongoing compliance with INPAS. Although we agree that proportionate narrative reporting is an important part of high-quality reporting, the timescale could be a challenge for some NPOs. Two alternatives to consider are: (a) whether the narrative reporting requirements should have a longer implementation period and not be required until a later date, either by giving a longer transition period or by setting a separate effective date; and (b) whether different requirements could apply to smaller entities (if indeed smaller NPOs are considered to be in scope for INPAS), although we acknowledge that creates the challenge of consistently defining smaller NPOs in an international context. We note that setting compliance requirements and effective dates could be a jurisdictional implementation decision, so that individual jurisdictions may decide when they will require NPOs to achieve compliance with INPAS in full, or with the financial statements or narrative reporting requirements of INPAS individually.	
I disagree because it's too short a period for all NPOs to adopt INPAS. It would be better for NPOs applying for foreign funding to adopt INPAS during the 2-year transition period. For other NPO the transition should be 3-5 years.	The Secretariat maintains that the two-year transition period strikes a practical balance between allowing sufficient time for adoption and ensuring that the benefits of INPAS are realised promptly. However, we recognise that jurisdictions and regulators may develop phased implementation plans to assist NPOs where needed.
I disagree because it's too short a period for all NPOs to adopt INPAS. It would be better for NPOs applying for foreign funding to adopt INPAS during the 2-year transition period.	The Secretariat maintains that the two-year transition period strikes a practical balance between providing sufficient time for adoption and ensuring timely realisation of INPAS's benefits. However, jurisdictions may consider phased implementation strategies to support NPOs where needed.
The two-year transitional period for adopting INPAS may be reasonable for larger organizations, but it may not be adequate for small and medium-sized organizations due to the challenges that is listed as follows: Resource Constraints: Many CSOs and NGOs operate with limited resources. Transitioning to a new accounting framework often requires significant time	The Secretariat maintains that the two-year transition period provides a practical and globally consistent framework for adoption. However, we encourage jurisdictions, regulators, and supporting organisations to explore tailored implementation strategies and

and effort, including training staff, updating systems, and revising financial reporting processes. For organizations with constrained budgets and manpower, this can be a significant burden. System Upgrades: Implementing INPAS might require upgrading or changing financial management systems (manual development, property, plant equipment valuations etc…). This can be time taking and costly process Training and Expertise: Staff needs training to understand and apply the new requirements. Finding and affording experts or consultants to guide the transition can be challenging and it needs more time Stakeholder Communication: Communicating changes in financial reporting to stakeholders, including donors and regulatory bodies, can be challenging. Organizations need to ensure that stakeholders understand the implications of the transition and how it affects financial reporting. Overall, the two-year transition period may not be sufficient for small and medium organizations; therefore, it would be advisable to extend it to three years. In general, there will be an ongoing or continuous process of adoption will occur throughout the NPO project implementation life due to the various nature of donor requirements for every FGA that the NPO will be engaged.	capacity-building efforts to assist smaller NPOs.
Comments from those that neither agreed nor disagreed	**Response**
We understand these transitional arrangements may make the adoption of INPAS more attractive. To answer this question, we were considering the impact these transitional provisions may have in the transitional years and potentially in the years beyond. E.g., will users' reliability of the financials be impacted in any way when full INPAS compliance is not provided (i.e. what user expectations may not be met in the transitional years)? What happens if an NPO is not able to achieve/not prioritizing full INPAS compliance for an extended period of time? What industry implications these arrangements may have, when one must comply with the full IFRS (for SMEs) in order to be compliant? Will auditors, who use INPAS as the benchmark to audit against, be impacted and how in the transitional years and in years beyond when full compliance is not	The Secretariat appreciates these important considerations and agrees that the impact of transitional provisions should continue to be monitored.

provided (audit risk, audit strategy, wording of modified audit opinions and their impact on users)? We have not been able to conclude on these as of submitting our answers.	
We believe such compliance statements should be made by local regulators.	The Secretariat believes that a consistent approach to compliance statements within INPAS is important for ensuring comparability and transparency across NPOs globally. While local regulators may provide additional guidance or oversight to align with national reporting requirements, maintaining a standardised compliance framework within INPAS supports international credibility and consistency in financial reporting.