



Financial Reporting Council

Karen Sanderson

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Chartered Institute of Public Finance and Accountancy
77 Mansell Street
London E1 8AN

30 March 2023

International Non-Profit Accounting Guidance Part 1: Invitation to comment

Dear Karen,

I am writing on behalf of the UK's Financial Reporting Council (FRC) in response to the above consultation.

We welcome the opportunity to contribute to your Guidance development process, both through our responses to consultations and our participation in the project's Technical Advisory Group. We believe the project has the potential to contribute towards addressing the gaps that exist in international financial reporting frameworks in relation to non-profit organisations (NPOs).

Our response draws on the FRC's experience in developing UK and Ireland accounting standards. This includes FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which addresses issues specific to entities that may be categorised as NPOs. The requirements in FRS 102 were originally based on the *IFRS for SMEs Accounting Standard*, modified both in terms of the scope of entities eligible to apply it and the accounting treatments provided.¹ The scope of FRS 102 includes entities defined as 'public benefit entities' and the standard includes requirements covering issues considered to be the most significant and relevant to such entities which are not addressed in the *IFRS for SMEs Accounting Standard*. These include concessionary loans, entity combinations, property held for social benefit, incoming resources from non-exchange transactions, and funding commitments. In many instances, the underlying concepts and pervasive principles of IFRS were drawn on to develop the requirements that address these issues. Our response also draws on feedback received on specific similar issues to those addressed in your consultation that were considered in the

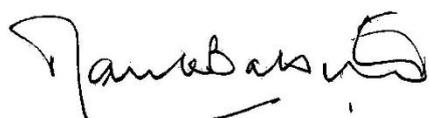
¹ For details, refer to the *Significant differences between FRS 102 and the IFRS for SMEs Standard* available at: <https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/significant-differences-between-frs-102-and-the-if>

development of FRS 102.

The views expressed in this submission are separate from and will not necessarily affect the FRC's future development and maintenance of UK and Ireland financial reporting standards.

The specific matters the FRC has commented on in response to your questions are included in the Appendix. If you have any queries or would like to discuss our comments in more detail, please do not hesitate contact Stephen Maloney (Senior Project Director) or Adrian Wallis (Project Director) at ukfrs@frc.org.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Babington'.

Mark Babington

Executive Director, Regulatory Standards

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International Non-profit Accounting Guidance (INPAG)

Exposure Draft 1 Response template

Exposure Draft 1 can be found here: www.ifr4npo.org/ed1. Please use this form to record your responses to the Specific Matters for Comment.

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 12 question areas. You do not need to answer all questions and can choose to answer as many or as few as you wish.

Responses must be received by **31 March 2023 and must be in English**.

Please contact info@ifr4npo.org if you have queries.

Responses can be submitted to ifr4npo@cipfa.org or through the website at www.ifr4npo.org/have-your-say

Respondent information*:

First name:	Mark	Organisation: (who do you work for)	Financial Reporting Council
Last name:	Babington	Response: please choose from: <ul style="list-style-type: none"> • on behalf of my organisation or • as an individual 	On behalf of my organisation
Email:	M.Babington@frc.org.uk	Country: (this should be the country in which you are based)	United Kingdom
Position:	Executive Director, Regulatory Standards	Professional interest: please choose from: <ul style="list-style-type: none"> • preparer, • auditor, • standard setter, • professional accounting organisation, • regulator, • donor, • academic, • civil society, • user of NPO services, • other (please state) 	Standard setter

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	Tick boxes No
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This document has been designed purely to enable feedback to Exposure Draft 1. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at ifr4npo@cipfa.org

Specific Matters for Comment

<p>Question 1: General comments</p>	<p>The Guidance is split into Sections that mirror the structure of the <i>IFRS for SMEs</i> Accounting Standard. INPAG has 3 volumes; (i) authoritative guidance (G) and application guidance (AG), (ii) a basis for conclusion that explains the reasons for the approach taken (BC) and (iii) non-authoritative implementation guidance (IG).</p>	
	<p>References</p>	<p>Response</p>
<p>a) Is the structure of INPAG helpful? If not, how could it be improved?</p>	<p>GP22-GP24</p>	<p>As set out in paragraph GP24, INPAG is organised into:</p> <ul style="list-style-type: none"> - Guidance (authoritative; first volume); - Application Guidance (authoritative; first volume); - Basis for Conclusions (non-authoritative; second volume); - Implementation Guidance (non-authoritative; third volume); and - Implementation examples (non-authoritative; third volume). <p>Generally, we think preparers prefer, and find it easier, to be able to look at fewer sources when preparing financial statements. The organisation of INPAG into five elements, two of which are authoritative, across three volumes, could be confusing to readers and we suggest that you consider rationalising to fewer elements. We therefore think that there should not be separate authoritative Guidance and authoritative Application Guidance. The current drafting approach has led to duplication, and it is not always obvious why some matters are Guidance and others are Application Guidance.</p> <p>We think that the Application Guidance should be incorporated into the main Guidance or the Implementation Guidance. For example Paragraph AG 7.1 (non-cash items) could be incorporated into the list of examples of non-cash transactions in Paragraph G7.19 of the Guidance. This approach would also help to avoid the reader needing to appreciate the distinction between ‘Application’ (the guidance for which is authoritative) and ‘Implementation’ (the guidance for which is non-authoritative).</p> <p>If you do retain separate Application Guidance then, similar to Application Guidance in IFRS Accounting Standards, it would be helpful to signpost the specific paragraphs of the main Guidance to which the Application Guidance relates. You may then be able to</p>

		<p>reduce the amount of duplication of text because it will be clear which paragraphs should be read together. For example:</p> <ul style="list-style-type: none"> - There is duplication across paragraphs G9.10 to G9.20 and AG9.1 to AG9.14. - Paragraph AG9.17 restates paragraph G9.22. <p>As set out in our response to Question 2, in certain areas the Guidance, Application Guidance, Basis for Conclusions, Implementation Guidance, and implementation examples all refer to similar concepts but in slightly different language. We recommend consistency wherever possible, to maximise clarity.</p>
<p>b) Do you have any other comments (including regulatory, assurance or cost/benefit) relating to this INPAG Exposure Draft? If so, explain the rationale for any points you wish to make.</p>		<p>We have no other comments.</p>

<p>Question 2: Description of NPOs and users of INPAG</p>	<p>This Section sets out a broad characteristics approach to identifying those entities to whom INPAG might apply. This descriptive approach is used rather than a single definition, given the diversity of NPOs. Although an entity might be described as an NPO for the purposes of INPAG based on these characteristics, INPAG is not intending to apply to very small NPOs, where cash-based financial information might be sufficient, or those NPOs that meet the definition of public accountability in IFRS-based standards.</p>	
	<p>References</p>	<p>Response</p>
<p>a) Do you agree with the description of the broad characteristics of NPOs? Does the term 'providing a benefit to the public' include all entities that might be NPOs? If not, what would you propose and why?</p>	<p>G1.2-G1.5</p>	<p><u>Principles-based approach to defining NPOs</u></p> <p>Paragraph G1.1 states that INPAG is intended for use by NPOs; paragraph G1.2 sets out three broad characteristics of NPOs. Paragraphs AG1.1 to AG1.6 discuss indicators that an entity might be an NPO. Paragraphs IG1.1 to IG1.9 provide further implementation guidance in applying the NPO definition, and paragraphs BC 1.1 to BC 1.26 set out the basis for conclusions relating to these requirements. As referenced in our response to Question 1, we think this range of different elements makes it quite challenging for a reader of INPAG to understand, and therefore to apply, all the authoritative and non-authoritative guidance.</p> <p>We support the use of a principles-based approach to describe the entities by which INPAG is intended for use, by referring to broad characteristics rather than attempting to define NPOs according to their legal form. This approach is similar to the <i>IFRS for SMEs</i> Accounting Standard, which includes a definition of those entities for which the standard is intended but leaves individual jurisdictions to determine which entities are required or permitted to use it.</p> <p>The FRC's accounting standard FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i> similarly includes a principles-based definition of a 'public benefit entity' (PBE), which we have included in the Appendix for information.</p> <p>Proposed paragraph G1.2 of the Guidance states that NPOs:</p> <ul style="list-style-type: none"> • Have the primary objective of providing a benefit to the public; • Direct surpluses for the benefit of the public; and

		<ul style="list-style-type: none"> • Are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards. <p><i>Overall comments:</i></p> <p>The first two characteristics are consistent with the definition of a PBE in FRS 102 and so, fundamentally, we agree that they are appropriate.</p> <p>The third characteristic is not shared with the definition of a PBE in FRS 102, but within the context of INPAG we understand why you wish to include it.</p> <p>However, we think that the attempt to provide detailed guidance on each of the three characteristics risks creating uncertainty. As set out below, in a number of cases the Guidance, Application Guidance, Basis for Conclusions, Implementation Guidance and implementation examples discuss similar concepts but in slightly different words, which may result in ambiguity or differences in interpretation.</p> <p>We think it may be advisable to consider limiting the guidance to stating the three characteristics. In FRS 102, we have not provided application guidance for our definition of a PBE.</p> <p>In the following sections, we comment on each of the three characteristics, with reference to the elements of our PBE definition.</p> <p><i>Drafting points</i></p> <p>Paragraph IG1.4 refers to indicators that are ‘common features of entities that are deemed to be NPOs <u>or their equivalent</u>’ (emphasis added). We think it may cause confusion to introduce the concept of an entity that is not an NPO but is equivalent to an NPO, particularly since this does not appear in the Guidance or Application Guidance.</p>
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	<p>services and/or goods to ... members of the NPO'. Paragraph BC 1.12 provides further discussion of this point, stating that the first characteristic 'makes clear that depending on the services and goods provided by the entity, the section of the public that benefit from the NPO[']s activities could be quite limited and even restricted to a defined membership of the entity'. The paragraph goes on to state that 'where the 'public' is limited in this way it is likely to be necessary to carefully examine the other characteristics and indicators to ensure the entity is an NPO'.</p> <p>These paragraphs suggest that, subject to consideration of the other characteristics and indicators, an organisation whose primary objective is to provide services and goods only to its own members may nevertheless be an NPO.</p> <p>We think this is potentially inconsistent with IFRS Accounting Standards (and with our standard FRS 102). Paragraph 8 of the Preface to IFRS Accounting Standards states that 'organisations such as ... mutual cooperative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants' are profit-oriented entities. Similarly, the FRS 102 definition of a PBE states that 'organisations such as ... mutual co-operative entities and clubs that provide dividends or other economic benefits directly and proportionately to their owners, members or participants are not PBEs'.</p> <p>The provision of dividends relates to the second characteristic of an NPO rather than the first; however, both sources refer to other economic benefits as well. Whilst economic benefits are not defined, the IASB's <i>Conceptual Framework</i> (paragraphs 4.6, 4.8 and 4.44) makes clear that economic benefits include goods and services. Proposed amendments to both the <i>IFRS for SMEs</i> Accounting Standard (proposed paragraphs 2.45 and 2.58 in IASB/ED/2022/1) and FRS 102 (proposed paragraphs 2.38 and 2.49 in FRED 82 <i>Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSS – Periodic Review</i>) will incorporate the same clarity.</p> <p>Therefore, both IFRS Accounting Standards and FRS 102 suggest that entities which provide goods and services 'directly and proportionately' to their members are for-profit entities, and/or are not PBEs.</p>
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		<p>We think these considerations should also be relevant to assessing whether an organisation is an NPO, but the drafting in INPAG ED1 does not make this clear; in particular, it does not contain the 'directly and proportionately' concept. We think that this could lead to inappropriate conclusions in some cases. For example, additional judgement may be required in respect of organisations such as private sports clubs, whose members receive access to services and facilities in proportion to their membership fees, or organisations that provide their members with discounts on goods.</p> <p>Paragraph BC 1.5 alludes to this issue, noting feedback that the characteristics set out in the Consultation Paper could have led to the inclusion of 'certain types of organisations providing benefit only to a small and privileged membership that could be deemed too exclusive to be viewed as a non-profit organisation'. But it is unclear whether the updated characteristics succeed in excluding the intended entities.</p> <p><i>The meaning of 'private benefit'</i></p> <p>As discussed above, Section 1 of the Guidance envisages that an organisation can have a primary objective of providing benefit to the public even, in some cases, when the beneficiaries are all members of the organisation. We think it is unclear how this principle interacts with the requirement in the draft Guidance that 'private benefit' must be no more than incidental for an organisation to be an NPO.</p> <p>Paragraph G1.3 states that 'where an NPO does provide private benefits, as may be the case where it has members ..., these should be incidental to the NPO's primary objective of providing a benefit to the public'; the drafting implies that the provision of services and/or goods to members can be 'private benefit'. Similarly, paragraphs AG1.3 and AG1.4 both imply that the existence of private benefits that are 'more than incidental' indicates that an entity is not an NPO. Paragraph IG1.5 states that an NPO's purpose 'should not give rise to more than an incidental private benefit; effectively the nature and amount of the private benefit is a necessary result of the NPO carrying out its purpose'.</p> <p>One interpretation of the draft Guidance is that 'private benefit' generally refers to the distribution of surpluses to owners or holders of equity claims, i.e. to the second</p>
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	<p>characteristic of an NPO. (Such an interpretation is suggested by paragraph AG1.3, which states that individuals' rights to financial returns from surpluses 'could imply that financial surpluses are not being directed for the benefit of the public and there are more than incidental private benefits being provided'. Similarly, paragraph IG1.7 refers to private benefit in the context of the distribution of surpluses, giving the payment of dividends to holders of equity claims as an example. Illustrative example 3 refers to incidental 'private <u>financial</u> benefits' (emphasis added); it is unclear whether these are intended to be synonymous with, or a subset of, 'private benefits'.) However, we do not think this can be clearly distinguished from the provision of goods or services, not least because the amount of goods or services provided can directly affect the amount of any surplus remaining for distribution.</p> <p>Given that, as discussed above, paragraphs G1.3 and BC 1.12 state that the provision of goods and services to members can, at least in some cases, be considered to represent 'public benefit', it is not clear where the dividing line is between 'public benefit' and 'private benefit'.</p> <p>Paragraph IG1.8 acknowledges this ambiguity by giving the example of a co-operative organisation that gives a private benefit to members by paying a rebate rather than paying dividend payments, stating that it may be unclear whether this represents a way of rewarding members which would fail the second characteristic, or a way of providing public benefit which would pass the first characteristic. We think this is an example of the way in which 'private benefit' considerations cut across the first two characteristics, and we think that more clarity may be required if the guidance is to be retained.</p> <p><i>How much private benefit is too much?</i></p> <p>As discussed above, Section 1 of the Guidance, Application Guidance, and Implementation Guidance all state that 'private benefit' must be no more than incidental if an organisation is to be an NPO. However, there are some potential inconsistencies which reduce the clarity of this distinction.</p> <p>Paragraph IG1.7 states that 'if an entity is <u>solely or mainly</u> distributing surpluses for private benefit ... it is <u>likely</u> it will be described as a for-profit organisation and not an</p>
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		<p>NPO' (emphasis added). Paragraph BC 1.10 states that 'the primary objective of an NPO will not be for financial or other economic returns, though <u>some incidental</u> private benefits may be provided in the pursuit of its purpose' (emphasis added). Again, it is unclear whether 'distributing surpluses for private benefit' as set out in paragraph IG1.7 is intended to be read as synonymous with, or a subset of, the provision of private benefits envisaged by paragraph BC 1.10. It is also unclear whether the provision of private benefit through goods and services is to be considered alongside, or independently of, the provision of private benefit through distribution of surpluses.</p> <p>However, if an entity providing 'incidental' private benefit <i>may</i> be an NPO but an entity 'mainly' providing private benefit is <i>likely not</i> to be an NPO, the question arises of how much private benefit is enough to tip the balance. We think that defining how much of the benefit provided by an entity is 'private', and whether this is too much for the entity to meet the definition of an NPO, may both be subject to significant judgement.</p> <p>Given the ambiguity over the meaning of 'private benefit', it is also unclear whether this matter relates to the first, or the second, characteristic.</p> <p><i>Drafting points</i></p> <p>Paragraph BC 1.10 states that an NPO 'will provide a benefit to <u>the general public, community or wider society</u>, and it is <u>the general public, community or a particular section of the community</u> who will be the primary beneficiaries of the entity's activities' (emphasis added). It is not clear why the two underlined passages differ slightly and whether this is intended to imply a substantive difference between those to whom the NPO provides a benefit, and those who are the primary beneficiaries of the NPO's activities.</p>
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		<p><u>Second characteristic: Direct surpluses for the benefit of the public</u></p> <p>The second characteristic of an NPO, as set out in paragraph G1.2, refers to the way in which the entity directs any financial surplus generated from its activities, and requires that such surpluses are directed for the benefit of the public. The FRS 102 definition of a PBE contains an analogous requirement that ‘any equity is provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members’.</p> <p>Paragraph G1.4 states that ‘financial surpluses <u>will be</u> directed to furthering the NPO’s primary objective of providing a benefit to the public and <u>not distributed</u> for private benefit’, (emphasis added), but goes on to say that ‘organisations that do have a <u>primary objective</u> of distributing surpluses for private benefit ... are <u>likely to be</u> for-profit private sector organisations’ (emphasis added). Similarly, paragraph IG1.7 states that ‘if an entity is <u>solely or mainly</u> distributing surpluses for private benefit ... it is <u>likely</u> it will be described as a for-profit organisation and not an NPO’ (emphasis added). We think this leaves significant ambiguity: on the one hand, <i>any</i> distribution for private benefit could mean that an entity is not an NPO; on the other hand, even a <i>primary objective</i> of distribution for private benefit may not necessarily preclude an entity from being an NPO. Paragraph AG1.3 continues this ambiguity, stating that an NPO ‘will <u>generally</u> not have obligations to individuals who have rights to financial returns from any surpluses’ (emphasis added) because such rights would ordinarily arise from individuals holding share capital, ‘which is expected to be <u>uncommon</u> if an entity is an NPO’.</p> <p>Paragraph G1.4 also refers to financial surpluses being ‘directed to furthering the NPO’s primary objective of providing a benefit to the public and not distributed for private benefit’. This implies, but does not state explicitly, that these two possibilities form a complete set.</p> <p>If the guidance is to be retained, we recommend consideration of further clarification of the ways in which a financial surplus may be directed, which of these are and are not for the benefit of the public, and how much of a financial surplus may be directed</p>
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		<p>other than for the benefit of the public before the entity fails to meet the second characteristic of an NPO.</p> <p>As noted above, we think that clarification of the term 'private benefit' is also relevant to the second, as well as the first, characteristic.</p> <p><i>Drafting points</i></p> <p>We think it would be worth clarifying whether 'surpluses' and 'financial surpluses' are synonymous, and considering using the same term consistently. The latter term is used in paragraphs G1.4, AG1.3, AG1.5, BC 1.11, BC 1.13, IG1.5, IG1.8 and illustrative example 1.</p>
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	<p><u>Third characteristic: Not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards</u></p> <p>The third characteristic of NPOs, as set out in paragraph G1.2, is that ‘they are not government or public sector entities that should prepare general purpose financial reports under public sector financial reporting standards’.</p> <p>FRS 102 does not include a restriction on use by public sector entities, either from the scope of the standard or from the definition of a PBE. Public sector charities and some other public sector entities (including the FRC itself) apply FRS 102.</p> <p>We understand that IFR4NPO intends to minimise overlap between the scope of INPAG and the scope of IPSAS, and we do not object to this intention. However, we think the third characteristic is potentially ambiguous in terms of whether it is intended to exclude all, or only some, government and public sector entities. We think this may be because it attempts to acknowledge jurisdictional restrictions on which entities are permitted or required to apply IPSAS, rather than simply discussing for which entities INPAG is intended to be suitable.</p> <p>Paragraph BC 1.17 states that ‘for <u>most</u> government and public sector entities, the ... needs of the users of their general purpose financial reports are <u>likely to be</u> best met by preparing them under public sector accounting standards’. Paragraph IG1.9 states that ‘government and public sector entities <u>should</u> use public sector accounting standards’. Paragraph G1.5 states that ‘the needs of users of government and public sector general purpose financial reports <u>will be met</u> by using public sector financial reporting standards’. (Emphasis added, in each case.)</p> <p>These paragraphs suggest that the intended interpretation of the third characteristic is that no government or public sector entities are NPOs for the purposes of INPAG. If so, the third characteristic could be rephrased simply as ‘they are not government or public sector entities,’ deleting the words ‘that should prepare general purpose financial reports under public sector financial reporting standards’. However, we think that this interpretation would exclude NPOs that are public sector entities but operated at arm’s length and we think that such entities may benefit from the</p>
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		<p>Guidance. As noted above, in the UK arm's length bodies that are charities are required to apply FRS 102 and the Charities SORP.</p> <p>If this is not the intended interpretation, more guidance may be needed to help the reader determine <i>which</i> government or public sector entities 'should prepare general purpose financial reports under public sector financial reporting standards'. In particular, the interpretation of the word 'should' may be open to judgement. If this is intended to be interpreted in light of the legal or regulatory requirements in a given entity's jurisdiction, this could be clarified. However, we think it would be clearer for the three characteristics to describe which entities were intended to be able to apply INPAG, and for considerations about whether individual jurisdictions permit or require them to do so to be considered separately.</p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - Paragraph IG1.9 gives 'taxation' as an example of 'transactions and economic events that are only relevant in the public sector context'. Since taxation is clearly relevant to for-profit entities we think this could be clarified. It is also not clear to us that taxation is necessarily irrelevant to NPOs. - We recommend that you consider whether the term 'public sector entity' will be understood by users of INPAG and, if necessary, add the definition from IPSAS.
<p>b) Does Section 1, together with the Preface, provide clear guidance on which NPOs are intended to benefit from the use of INPAG? If not, what would be more useful?</p>		<p>There is some ambiguity regarding who are the intended beneficiaries of INPAG. Paragraph IG1.3 states that 'the broad characteristics approach to describing NPOs was developed to identify the entities that the INPAG is expected to primarily benefit', which suggests that INPAG is expected primarily to benefit <i>preparers</i>, i.e. NPOs themselves. Similarly, paragraph BC 1.2 states that 'a broad characteristics approach was developed for INPAG to identify the entities that INPAG is expected to primarily benefit'. However, we assume that, ultimately, it is the <i>users</i> of general purpose financial reports of NPOs that are intended to benefit, rather than the NPOs themselves.</p>

	<p>Having made that assumption, we have interpreted this question as whether it is clear which NPOs are intended to be <i>able to use</i> INPAG (subject to jurisdictional decisions permitting or requiring them to do so).</p> <p>Our comments in relation to the three broad characteristics that define which entities meet the definition of NPOs, and the indicators supporting those characteristics, are set out in response to Question 2 a).</p> <p>Our response to Question 2 b) focuses on whether it is clear which NPOs, if not all, are intended to be able to use INPAG.</p> <p>We think that, in general, INPAG implies that all entities meeting the definition of NPOs should be able to use the Guidance, subject to local legal or regulatory requirements. We agree with this general principle.</p> <p>However, we think there may be some ambiguity over whether NPOs with public accountability are intended to be able to use the Guidance.</p> <p><u>NPOs with public accountability</u></p> <p><i>Is it clear that the definition of an NPO and the definition of an entity with public accountability are independent?</i></p> <p>Paragraph BC 1.23 states that some entities meeting the definition of NPOs ‘may also meet the IFRS definition of public accountability’. Paragraphs G1.6 to G1.12 discuss the use of INPAG by entities that have public accountability. We think it may not be sufficiently clear that whether an entity is an NPO, and whether an entity has public accountability, are two independent distinctions.</p> <p>Paragraph G1.9 states that ‘some entities that have public accountability may find INPAG useful’. Presumably such entities would also be NPOs, although this is not clearly stated. Paragraph G1.10 does not preclude a publicly accountable entity from applying INPAG, provided that certain disclosures are made; again, it is not made clear at this point that a publicly accountable entity applying INPAG must nevertheless also be an NPO. Similarly, paragraph G1.12 refers to an entity</p>
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	<p>determining whether it has public accountability and thus whether it may apply INPAG, without clarifying that such an entity must be an NPO.</p> <p>We recommend that these paragraphs make clearer that INPAG is only intended for use by NPOs, and that additional considerations apply to those NPOs that have public accountability in determining whether use of INPAG is appropriate. For example, in paragraph G1.9 it might be appropriate to replace the term ‘entities’ with the term ‘NPOs’.</p> <p><i>Is it clear whether INPAG is intended to be available to an NPO with public accountability?</i></p> <p>In terms of the additional considerations for NPOs that have public accountability, we think it may be unclear whether such NPOs are intended to be able to use INPAG. Paragraph BC 1.1 states that ‘organisations that meet the public accountability definition in IFRS <u>need to follow</u> full IFRS Accounting Standards, or equivalent national Generally Accepted Accounting Practice (GAAP)’. Paragraph BC 1.25 states that ‘entities that have public accountability <u>are expected to use</u> IFRS Accounting Standards or follow an appropriate jurisdictional GAAP’. Paragraph G1.9 states that ‘it is <u>unlikely that all the needs</u> of users of ... financial statements of entities that have public accountability <u>will be met</u> if they are prepared in accordance with INPAG’. (Emphasis added, in each case.)</p> <p>These paragraphs imply that INPAG is not intended for use by NPOs that have public accountability. However, paragraph BC 1.26 states that ‘those NPOs that have public accountability ... are not prohibited from using INPAG’, which is consistent with paragraph G1.10. We think it could be made clearer both that the intention is that NPOs with public accountability will not apply INPAG, and the reasons why some such NPOs may nevertheless be permitted to do so. If, for example, this was because of an expectation that certain jurisdictions may mandate the application of INPAG by NPOs with public accountability, this could be made clearer.</p> <p><i>Is it appropriate for an NPO with public accountability to apply INPAG?</i></p>
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		<p>The <i>IFRS for SMEs</i> Accounting Standard is clear that it is not intended for use by entities with public accountability. Like INPAG, the requirements of FRS 102 are based on the <i>IFRS for SMEs</i> Accounting Standard, modified both in terms of the scope of entities eligible to apply it and the accounting treatments provided. The scope of FRS 102 does <i>not</i> exclude entities with public accountability. As a consequence, additional requirements were developed for financial institutions and retirement benefit plans (Section 34 of FRS 102) and entities whose debt or equity instruments are publicly traded (see Section 1 of FRS 102); the broader scope of FRS 102 also informed its development more generally.</p> <p>We think that allowing publicly accountable entities to apply INPAG without imposing additional requirements creates a risk that the financial statements of those entities will not meet the needs of their users. We recommend that INPAG should take either:</p> <ul style="list-style-type: none"> • the <i>IFRS for SMEs</i> Accounting Standard approach of not permitting a publicly accountable entity to apply the Guidance; or • the FRS 102 approach of including specific additional requirements for entities that have public accountability.
[General drafting comments for Section 1]		<p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - In paragraph BC 1.6, the word ‘currently’ presumably refers to ‘at the time of the Consultation Paper’ rather than at the present time. - Paragraphs BC 1.13 and BC 1.21 contain sentences that end with a) rather than a full stop. - Paragraph BC 1.21 omits the word ‘assets’ from the term ‘net assets’. - Paragraph BC 1.26 is rendered as BC1.26. - Paragraph IG1.8, and two other places in that volume, contain the term ‘that that’. - On page 155 in the introduction to the illustrative examples, a comma may be required before ‘which’ in the sentence ‘They should not be relied upon by legislative and regulatory authorities and standard setters in individual

		jurisdictions which will need to apply their own professional judgements to their own circumstances'.
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<p>Question 3: Concepts and pervasive principles</p>	<p>This Section sets out the concepts and principles that underpin the accounting requirements for NPO transactions and events. It describes a reporting entity for the purposes of INPAG and provides additional guidance about the sometimes complex structures used by NPOs to achieve their objectives. It identifies the primary users of financial statements and reports, their information needs and the characteristics of useful information. It also describes the elements of financial statements and how net assets are derived. It introduces the categorisation of accumulated funds into funds with restrictions and funds without restrictions.</p> <p>This Section is most likely to be read by standard setters, auditors, technical accounting advisors and financial accountants.</p>	
	<p>References</p>	<p>Response</p>
<p>a) Do you agree with the range of primary users and the description of their needs? If not, what would you propose and why?</p>	<p>G2.3-G2.12</p>	<p>Paragraphs BC2.5 to BC2.8 conclude that the primary users of NPO general purpose financial reports are:</p> <ul style="list-style-type: none"> • the public to whom the NPO provides services and goods; • resource providers who do not possess the authority to require an NPO to disclose the information they need for accountability and decision-making purposes; and • those that fulfil oversight functions on behalf of the public and resource providers. <p>We support the use of the <i>IFRS for SMEs</i> Accounting Standard as the foundational framework. On that basis, we think it would be unhelpful to remove any of the existing ‘primary users’ envisaged by that standard and therefore we recommend that in addition to the public, resource providers, and those that fulfil oversight functions, the Guidance also lists investors, lenders and other creditors).</p> <p>We think that in some jurisdictions those charged with oversight functions would be in a position to demand reports tailored to meet their particular information needs and therefore may not be primary users of NPO general purpose financial reports. This could be given as an example in Paragraph G2.6 of the Guidance of a type of user that is not considered to be a primary user.</p>

		<p>We also think that the members of an NPO will be primary users of an NPO's general purpose financial reports, but they may not be 'resource providers' if the legal form of the NPO does not require a member to provide resources (for example, a private company limited by guarantee). We think the guidance should include members as primary users, perhaps by substituting 'investors' with 'investors or members' in the list of primary users taken from the <i>IFRS for SMEs Accounting Standard</i>.</p> <p>It is less clear to us at this stage what additional disclosures the Guidance might include for those additional users. This will be something to consider in the "accounting" exposure draft.</p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - Glossary: The conclusion in paragraphs BC2.5 to BC2.8 has not been reflected in the Glossary definition of 'primary users' that is referenced in paragraph G2.6. The Glossary definition is the same as the definition of 'primary users' in the <i>IFRS for SMEs Accounting Standard</i>. - Potential resource providers: In the <i>IFRS for SMEs Accounting Standard</i> the primary users of financial statements are existing and potential investors, lenders and other creditors. Paragraph G2.4 of the Guidance is not explicit whether potential resource providers are primary users, and we think it should be clear that they are. For example, potential resource providers might include those that are considering donating to an NPO, or potential investors, lenders or other creditors.
b) Do you agree with the qualitative characteristics of useful information? If not, what would you change and why?	G2.13-G2.32, AG2.1-AG2.3	We support the <i>IFRS for SMEs Accounting Standard</i> being used as the foundational framework, including the qualitative characteristics.
c) Do you agree with the components of net assets? If not, why not?	G2.73, Diagram 2.2	The proposed Guidance re-names the <i>IFRS for SMEs Accounting Standard</i> concept of 'equity' to 'net assets'. It is the residual of recognised assets minus recognised liabilities. The Guidance also says that 'funds with restrictions' and 'funds without restrictions' are a component of 'net assets', alongside other elements.

		<p>'Fund accounting' means that when assets and liabilities (and corresponding income and expenses) are recognised, they are categorised either as being restricted for a specific purpose or as being unrestricted. An NPO might then present its financial statements in a columnar format, splitting a total entity-level figure into any number of funds. A benefit of this presentation in a UK NPO context is that trust law might restrict the use of some assets of an NPO to a narrower purpose than the NPO's overall purpose, for example a donor might donate funds to a national charity with a condition that they are applied to a specific region. Fund accounting provides useful information to users of financial statements about such restrictions.</p> <p>In the context of this question, we therefore do not agree that funds are distinct components within net assets (alongside other components); rather, fund accounting is a separate dimension within the financial statements that all transactions are categorised into. Accordingly, every element of the financial statements, including net assets, can be split by fund.</p>
<p>d) Do you agree with the inclusion of equity as an element? If not, what would you propose and why? What type of equity might an NPO have?</p>	<p>G2.141, AG2.6-AG2.9</p>	<p>We agree that it is often necessary to subclassify the residual interest in the assets of an entity after deducting all its liabilities into components (referred to as "equity" in the <i>IFRS for SMEs</i> Accounting Standard), for example a company limited by shares might present 'share capital', 'share premium', and 'retained earnings'.</p> <p>The Guidance concludes that the term 'equity' implies a formal ownership structure with holders of equity being entitled to financial returns and the residual of net assets based on that ownership. Consequentially, the Guidance:</p> <ul style="list-style-type: none"> • uses the term 'net assets' to describe the residual interest in the assets of an entity after deducting all its liabilities, replacing 'equity' in the <i>IFRS for SMEs</i> Accounting Standard; and • uses the term 'equity' to refer to the net of any contributions from, and distributions to, holders of equity claims, which are a claim on the residual interest in the assets of an entity after deducting all its liabilities.

		<p>We think it may be confusing to define the term 'equity' differently in the Guidance to how the term is used in other accounting standards, particularly for preparers and users that are familiar with other sectors.</p> <p>For example:</p> <ul style="list-style-type: none"> • In some places the term 'equity' has been replaced with 'equity and funds with and without restrictions in net assets', which is more complex to read. • Section 9 is particularly difficult because so many requirements in that section of the <i>IFRS for SMEs</i> Accounting Standard use the term 'equity'. Please refer to our response to Question 10. • The term 'equity' is still used in its <i>IFRS for SMEs</i> Accounting Standard definition within the terms 'equity claim' and 'equity instrument'. If the term 'net assets' replaces 'equity' (although, as above, we do not recommend that approach) then these terms could be expressed as 'net asset claim' or 'net asset instrument'.
<p>e) Do you agree with the categorisation of funds between those with restrictions and those without restrictions in presenting accumulated surpluses and deficits? If not, what would you propose and why?</p>	<p>G2.74-G2.75, AG2.4-AG2.5</p>	<p>In FRS 102, we do not mandate fund accounting for public benefit entities. The standard does not attempt to address all considerations around an entity's legal obligations, and we have been content for the Charities Statement of Recommended Practice (SORP)¹ to require charities to apply fund accounting, as an interpretation of Section 5 of FRS 102, on the basis that it is required under trust law in the UK and is useful information for users of those entities' accounts. We understand that INPAG is intended to be standalone guidance and has a narrower scope than FRS 102. On that basis, we support the introduction of requirements that implement fund accounting.</p> <p>We agree that the two primary classes of funds are those with restrictions and those without restrictions. We think that, when relevant, an entity should disaggregate restricted funds between those which are to be spent or applied within a reasonable period from their receipt to further a specific purpose of the NPO (restricted income</p>

¹ SORPs are sector-driven recommendations on financial reporting, auditing practices and actuarial practices for specialised industries, sectors or areas of work, or which supplement FRC standards and other legal and regulatory requirements in the light of special factors prevailing or transactions undertaken in that particular industry, sector or area of work that are not addressed in FRC standards. SORPs also address matters that are addressed in FRC standards, but about which additional guidance is considered necessary. [https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/statements-of-recommended-practice-\(sorps\)](https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/statements-of-recommended-practice-(sorps))

		funds); and those which might be held indefinitely (endowment funds). In the UK, this approach is required by the Charities SORP (paragraphs 2.16 to 2.25) and reflects the requirements of trust law.
f) Do you agree that funds set aside from accumulated surpluses for the holders of equity claims can be part of funds with restrictions and funds without restrictions and that they should be transferred to equity prior to distribution? If not, what would you propose and why?	G2.142, AG2.8-AG2.9	<p>As set out in c), we think that all transactions and elements of the financial statements are categorised for 'fund accounting'.</p> <p>We do not agree that transactions with holders of equity claims occur outside the fund accounting concept. For this reason, it would not be necessary to transfer accumulated surpluses from 'funds' to 'equity' (as defined in INPAG) prior to distribution because the transaction would take place directly from 'retained earnings'/'accumulated surplus', similar to a dividend paid out by a commercial company limited by shares.</p>
g) Do you agree that 'service potential' should be introduced into Section 2? If not, why not?	G2.51, G2.54, G2.58, G2.67-G2.68, G2.103, G2.108-G2.110, G2.115-G2.117, G2.122	<p>We agree that 'service potential' is a relevant concept for NPOs and agree with the definition ('enables an entity to achieve its objectives without necessarily generating net cash inflows').</p> <p>However, we disagree with the proposal to define 'service potential' as a distinct concept from 'economic benefit', and to modify the 'economic benefit' concept to specify that it relates only to cash inflows and outflows. Rather, we think that 'economic benefit' encompasses more than just cash flows, and would include service potential. We think that approach is helpful because it does not require altering one of the fundamental concepts that underpins the <i>IFRS for SMEs</i> Accounting Standard.</p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - Paragraph G2.54 has a slightly different definition of an 'economic resource' than paragraph G2.57 and the Glossary.
h) Do you agree that the provisions for 'undue cost and effort' used in the <i>IFRS for SMEs</i> Accounting Standard should be retained? If not, why not?	G2.33-G2.36	<p>In FRS 102 we no longer include undue cost or effort exemptions. When considering this matter, we noted that some stakeholders welcomed the concept of 'undue cost or effort', which they considered provided a proportionate solution for smaller entities. However, it was noted that entities needed to apply judgement in determining whether an exemption is available in their circumstances, which had led to the</p>

		<p>exemptions being applied inconsistently in similar circumstances and therefore different costs being incurred in the preparation of financial statements. It was noted that not all entities were applying sufficient rigour in assessing the availability of the undue cost or effort exemptions (the application of which is not an accounting policy choice). Accordingly, we concluded that undue cost or effort exemptions should be removed from FRS 102.</p> <p>However, on the basis that you are using the <i>IFRS for SMEs</i> Accounting Standard as the foundational framework, we do not think there is an NPO-specific reason to remove them.</p>
<p>i) Is the NPO as a reporting entity clear? Does the process for identifying branches in the Application Guidance support the principles? If not, what would be more useful?</p>	<p>G2.43-G2.49, AG2.10-AG2.24.</p>	<p>The reporting entity boundary concepts are the same as in the <i>IFRS for SMEs</i> Accounting Standard and we do not see a good NPO-specific reason to alter the approach.</p> <p>Paragraph AG2.19 sets out ‘examples of indicators that an operational structure is an internal branch of an NPO and not a separate reporting entity’. Our understanding is that the key purpose of this paragraph is to assist in identifying whether a branch is an ‘internal branch’ as described in paragraph AG2.17, which should therefore be included in the general purpose financial reports of the reporting NPO.</p> <p>We think the term ‘operational structure’ in paragraph AG2.19, which is not used elsewhere in the Guidance or Application Guidance, may be confusing. We think it could be changed to ‘branch’.</p> <p>We do not think it is necessary to imply, as paragraph AG2.19 does, that a branch will be <i>either</i> an internal branch of an NPO <i>or</i> a separate reporting entity. Paragraphs AG2.18 and AG2.21 both indicate that whether or not a branch produces a separate general purpose financial report is not determinative of whether it is an internal branch.</p> <p>Paragraph AG2.20 implies that the indicators in paragraph AG2.19 are relevant to determining <i>both</i> whether an organisation is a branch, <i>and</i> whether a branch is an internal branch. We think it would be preferable if the purpose of the paragraph was restricted to the latter. Paragraph AG2.20 also implies that displaying any two of the indicators in paragraph AG2.19 may be sufficient to indicate an internal branch; we do not think this is the intention.</p>

	<p>The following suggestion may resolve these points:</p> <p><i>AG2.19 The following are examples of indicators that an operational structure a branch is an internal branch of an NPO and not a separate reporting entity. This list is not exhaustive. The operational structure branch:</i></p> <p>...</p> <p><i>AG2.20 Consideration of these indicators will require judgement. Displaying just one of the indicators may not mean that an organisation a branch meets the definition of an internal branch, but in combination with another one or more other indicators might lead the reporting NPO to decide that it the branch is an internal branch.</i></p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - We think it might also be helpful to specify in paragraph AG2.20 that the weight applied to each indicator set out in paragraph AG2.19 will also require judgement. - In paragraph AG2.22, we think the term ‘intra-branch transactions’ should read ‘inter-branch transactions’.
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Question 4: Principles to enable comparability of financial statements	This Section provides the principles behind the development of financial statements, including consideration of whether an entity is a going concern. It looks at the ability to compare financial statements and sets out the principles of comparability and consistency. Comparatives are identified as being necessary for financial statements and narrative reports. This Section also looks at the ability to express compliance with INPAG. It also considers NPO-specific terminology.	
	References	Response
a) Do you agree with the proposed changes to terminology from the <i>IFRS for SMEs</i> Accounting Standard? If not, what would you propose and why?	Sections 3-10	<p>As noted in our response to Question 3(d) above, we have concerns about replacing the term “equity”. We also have concerns about replacing the term “owners”, as set out in our response to Question 10.</p> <p>In general, we recommend caution about replacing established terms and concepts from the <i>IFRS for SMEs</i> Accounting Standard without clear benefit. This is particularly important because INPAG is intended to apply to a broad range of legal forms, and whilst some concepts are expected to be uncommon for NPOs (for example, non-controlling interests or equity claims more generally), the scope of the Guidance does not preclude them.</p>
b) Do you agree that comparatives should be shown on the face of the primary statements? In particular, do you agree with the proposed comparatives for the Statement of Income and Expenses? If not, what do you propose and why?	G3.14, G3.19, AG3.9-AG3.11, BC5.11	In principle, we think comparatives should always be given for amounts in the financial statements. However, we think it may be appropriate to allow an NPO to present the comparative figures of its analysis of funds with restrictions and without restrictions in the notes to the accounts. This is the approach taken by the Charities SORP.
c) Do the proposals for expressing compliance with INPAG create unintended consequences? If so, what are your key concerns?	G3.3-G3.7, AG3.3-AG3.5	<p>In principle, we agree that a statement of compliance should be required. Financial statements should not be described as complying with a framework unless they comply with all of its requirements.</p> <p>In the UK, the requirements for narrative reporting are set out in legislation and the requirements for financial statements are largely separate (being set through a combination of legislation and financial reporting standards). An entity may prepare its financial statements in accordance with one of a number of different frameworks, depending on its eligibility, as well as, for example, preparing a Directors’ Report in</p>

		<p>accordance with legislation. In FRS 102 the statement of compliance relates only to the financial statements.</p> <p>We think the proposals for a combined statement of compliance with both the financial statement requirements and the narrative reporting requirements of the Guidance could create unintended consequences. For example, if the narrative reporting requirements in the Guidance duplicate or conflict with existing requirements (for example, those set by an entity's jurisdiction), an entity may be required to produce information twice.</p>
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<p>Question 5: Scope and presentation of the Statement of Financial Position</p>	<p>The Statement of Financial Position has proposals that the aggregate of the fund balances for funds with restrictions and funds without restriction and has associated disclosures. This statement mirrors those used in other international standards, including how assets and liabilities are classified, but has NPO-specific terminology.</p>	
	<p>References</p>	<p>Response</p>
<p>a) Do you agree that all asset and liability balances should be split between current and non-current amounts (except where a liquidity-based presentation has been adopted)? If not, why not?</p>	<p>G4.5-G4.9, AG4.4</p>	<p>The <i>IFRS for SMEs</i> Accounting Standard requires entities to distinguish between current and non-current items and we do not see an NPO-specific reason to alter this.</p>
<p>b) Do you agree with the proposal that not all categories of asset and liability balances should be split between those with and those without restrictions? If not, which categories of asset and/or liability should be split?</p>	<p>G4.13-G4.14, AG4.5-AG4.7</p>	<p>As stated in our response to Question 3e), we support the introduction of requirements that implement fund accounting in the Guidance.</p> <p>The proposal does not require any categories of asset and liability to be split by fund. It only requires an entity to disclose an analysis of 'net assets', showing separately material individual reserves or funds.</p> <p>We think it may be difficult to specify more granular disclosure that would always be relevant to every NPO. However, it may be appropriate to require an NPO to provide a summary of the assets and liabilities of each category of fund of the NPO if this information is not already provided by presenting a columnar balance sheet. This is the approach required by the Charities SORP (paragraphs 2.29 and 10.9). The Guidance could also set out some principles the NPO would apply to determine how much information to include in the summary.</p>

<p>Question 6: Scope and presentation of the Statement of Income and Expenses</p>	<p>This Section is retitled from the equivalent Section in the <i>IFRS for SMEs</i> Accounting Standard to be more relevant for NPOs. References to ‘profit and loss’ are replaced with ‘surplus and deficit’. A key element of the presentation of this statement is that revenue and related expenses are split between those that have been received with restrictions and those that haven’t.</p> <p>Some income and expenses are proposed to be part of the Statement of Changes in Net Assets (see question 7).</p>	
	<p>References</p>	<p>Response</p>
<p>a) Do you agree with the name of the primary statement being ‘Statement of Income and Expenses’? If not, why not?</p>	<p>BC5.1-BC5.5</p>	<p>We are not opposed to the Guidance specifying that the statement is referred to as a Statement of Income and Expenses.</p> <p>Re-titling of statements would not be prohibited under the <i>IFRS for SMEs</i> Accounting Standard. The Guidance retains that option, and we agree there is no NPO-specific reason to remove it.</p>
<p>b) Do you agree that the terms surplus and deficit should be used instead of profit or loss? If not, why not?</p>	<p>G5.5, BC5.6</p>	<p>We understand that the term ‘profit’ may not be applicable in an NPO context. We think the term ‘surplus and deficit’ is a sensible replacement that links with the overarching requirement for an NPO to direct surpluses for the benefit of the public. The term is also used by the Charities SORP.</p>
<p>c) Do you agree that amounts on each line of revenue and expenses should be split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?</p>	<p>G5.3, AG5.4-AG5.6, BC5.9-BC5.12</p>	<p>As stated in our response to Question 3e), we support the introduction of requirements that implement fund accounting in the Guidance.</p> <p>We think that analysing each line of the Statement of Income and Expenses would usually be appropriate, and this approach is required by the Charities SORP (paragraph 4.1 and table 2). However, see our response to Question 4b) above for comments on comparative figures.</p>
<p>d) Do you agree that NPOs should be able to choose whether to present either income items or expense items first to get to a surplus or deficit? If not, what alternative approach would you propose and why?</p>	<p>Implementation guidance</p>	<p>Re-ordering would not be prohibited under the <i>IFRS for SMEs</i> Accounting Standard, and we do not see an NPO-specific reason for it to be prohibited by the Guidance.</p>

Question 7: Scope and presentation of the Statement of Changes in Net Assets	This statement is derived from the Statement of Changes in Equity included in the <i>IFRS for SMEs</i> Accounting Standard. It includes a number of transactions that under the <i>IFRS for SMEs</i> Accounting Standard would be part of Other Comprehensive income.	
	References	Responses
a) Do you agree with the proposal that there is no Other Comprehensive Income (OCI), and that an expanded Statement of Changes in Net Assets would allow an equivalent to the OCI being produced. If not, why not?	G6.2, BC5.13-BC5.16, BC6.1-BC6.5	We do not agree with the proposal to remove the concept of Other Comprehensive Income (OCI), with items that would have been OCI recognised directly in the Statement of Changes in Net Assets. The proposal mixes items of performance with equity transactions. The two-statement Income Statement approach is an established solution to dealing with the presentation of unrealised gains and losses. If an NPO has no relevant items it would not be required to present OCI in any case.
b) Do you agree that funds are split between those with and those without restrictions on the face of the primary statement? If not, what alternative approach would you propose and why?	G6.4	<p>As stated in our response to Question 3e), we support the introduction of requirements that implement fund accounting in the Guidance.</p> <p>We agree with the proposal in paragraph G6.3 that funds should be split between those with and those without restrictions on the face of the Statement of Changes in Net Assets.</p> <p>Paragraph G6.4 requires an entity to disclose a reconciliation in the notes to the financial statements of the carrying amount at the beginning and the end of the period of any material subcomponents of net assets, which aggregate to the components shown on the primary statement. We think the distinction between a 'component' and a 'subcomponent' is not clear, and the requirement could be interpreted in a manner that would overlap with the information already provided in applying paragraph G6.3. For example, paragraph G6.4 gives 'funds with restrictions' as an example of a material subcomponent of net assets, but paragraph G6.3 already requires a reconciliation of 'funds with restrictions' to be presented on the face of the primary statement, suggesting that is a 'component' rather than a 'subcomponent'. We think paragraph G6.4 should apply to material subcomponents of the components for which a reconciliation is provided in applying paragraph G6.3. For example, as follows:</p> <p style="text-align: center;"><i>G6.4 An NPO shall provide, in the notes to the accounts, a reconciliation of the carrying amount at the beginning and the end of the period, in line with G6.3, of any material subcomponents of net assets a disaggregation into material</i></p>

		<p><i><u>subcomponents of the reconciliation provided in applying paragraph G6.3 (such as funds with restrictions and funds without restrictions for example, when an NPO has more than one fund with restrictions and providing a disaggregated reconciliation of its funds with restrictions would be material information) in the notes to the accounts, which aggregate to the components shown on the primary statement.</u></i></p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none">- We think that the comma after 'for' in the first sentence of paragraph G6.3 may be unnecessary.
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Question 8: Scope and presentation of the Statement of Cash Flows	This Section includes disclosures to highlight NPO specific transactions, such as revenue to fund the purchase of property, plant and equipment. There are no changes to the fundamentals of the cash flow from the <i>IFRS for SMEs</i> Accounting Standard, with both the direct and indirect methods of producing a Statement of cash flows permitted.	
	References	Responses
[Fund accounting]		Although the consultation does not ask for feedback on this topic specifically, we think that given 'fund accounting' is applied in the other primary statements it may be helpful to consider requiring that presentation in the Statement of Cash Flows, splitting amounts on each line of the statement between those with and those without restrictions.
a) Do you agree with the separate presentation of cash donations and grants on the face of the statement? If not, what alternative approach would you propose and why?	G7.4 a)	<p>We have no objection in principle to the inclusion of additional guidance about the disaggregation or categorisation of cash flows within the three established categories.</p> <p>We think it may be necessary to revisit the basis and description of each component once the sections related to revenue and non-exchange transactions have been drafted, because it would be appropriate to disaggregate cash flows on the same basis as the income.</p>
b) Do you agree that donations or grants received for the purchase or creation of property, plant and equipment should be treated as investing activities? If not, what alternative would you propose and why?	G7.5 b)	<p>The <i>IFRS for SMEs</i> Accounting Standard does not specify where government grants are recognised in the cash flow statement. FRS 102 does not specify where either government grants or other non-exchange transactions are recognised in the cash flow statement.</p> <p>As set out in paragraph G7.4 a), cash flows from operating activities generally result from the transactions and other events and conditions that enter into the determination of surplus or deficit. We think it is necessary to revisit this question once the sections related to the recognition of government grants and other non-exchange transactions have been drafted.</p> <p>For example, if grants and donations that are restricted for the purchase or creation of property, plant and equipment are to be recognised as income (therefore part of the determination of surplus or deficit) then it may be more appropriate for the cash receipt to be categorised as an operating cash flow.</p>

		FRS 102 provides a choice between a performance model and an accrual model for government grants, and requires the use of a performance model for other non-exchange transactions. The Charities SORP requires the use of the performance model for government grants, and lists 'cash receipts from donations and grants' as an example of an operating cash flow. The <i>IFRS for SMEs</i> Accounting Standard does not allow an accrual model for government grants, requiring a performance model. Since INPAG uses that standard as its foundational framework, we assume that INPAG is likely to use a performance model. Therefore we think it is unlikely to be appropriate to treat donations or grants received for the purchase or creation of property, plant and equipment as investing activities.
c) Do you agree that both the direct method and indirect methods for the cash flow statement should be permitted? If not, why not?	G7.7-G7.9	The <i>IFRS for SMEs</i> Accounting Standard includes both approaches as options and we do not see an NPO-specific reason to restrict the choice.

Question 9: Principles underpinning the notes to the financial statements	This Section sets out the general requirements for disclosures and the notes to the primary financial statements. There are no known NPO specific issues for this Section and modifications made to align with other Sections.	
	References	Responses
a) Do you agree that there are no NPO specific considerations for this Section? If not, what changes would you propose and why?		We agree. In FRS 102 we do not include any requirements specific to 'public benefit entities' in Section 8 <i>Notes to the Financial Statements</i> .

<p>Question 10: Approach to consolidated and separate financial statements</p>	<p>This Section sets out the principles to identify control and provides additional guidance about how control applies to NPOs. It also includes a simplification for control in a number of defined circumstances (a rebuttable presumption). It provides guidance on less common situations when consolidation might not be appropriate. The Section uses NPO-specific terminology.</p>	
	<p>References</p>	<p>Response</p>
<p>a) Is the Application Guidance to apply the control principles sufficient? If not, what changes or additions would you propose and why?</p>	<p>AG9.1-AG9.14</p>	<p>The control model proposed in the Exposure Draft <i>Third edition of the IFRS for SMEs Accounting Standard</i> (IASB/ED/2022/1), which is based on that in IFRS 10 <i>Consolidated Financial Statements</i>, primarily expects that entities have owners that are motivated by financial return, and the examples of return in paragraph B57 of IFRS 10 are examples of financial return. This is not necessarily relevant for NPOs and we understand that you have therefore modified several terms and concepts in the Guidance. However, because an NPO may consolidate a commercial entity, such as a trading subsidiary, the Guidance also contemplates those scenarios. The FRC has not updated FRS 102 to reflect the control model in IFRS 10, in part because it is more complex than the existing requirements of FRS 102.</p> <p><u>Returns</u></p> <p>We think it is helpful to clarify that ‘returns’ in the context of the definition of control include non-financial benefits. For example, a parent NPO may not receive a financial benefit from its controlled NPOs if they are prevented from distributing surpluses, but the parent NPO may still be exposed to the positive and negative effects of the controlled entity’s activities and performance.</p> <p>Paragraph G9.9 refers to ‘exposure, or rights, to variable returns’, but paragraph G9.15 refers to ‘variable returns or variable benefits to the public and service beneficiaries’. We think it would be helpful to refer consistently to non-financial benefits as being a type of ‘return’, rather than a distinct concept, and therefore that paragraph G9.15 should not include ‘variable benefits to the public and service beneficiaries’ as a separate concept, but that it is clear it is part of variable returns.</p>

		<p><u>Presumption of power</u> Paragraphs AG9.4 and AG9.5 set out some circumstances in which ‘power’ is presumed to exist.</p> <p>Paragraph AG9.4 states that power is presumed to exist ‘when the controlling NPO ... can exercise other decision-making rights, which <u>may</u> include’ any of a list of five rights (emphasis added). We think it may be unclear whether power is presumed to exist if an entity can exercise:</p> <ul style="list-style-type: none"> - one or more of the five decision-making rights specifically listed; - any decision-making right of any kind; or - decision-making rights of certain kinds, similar to those listed, but with the application of judgement required. <p>We think there is a risk of power being presumed inappropriately and that a more precise description of the decision-making rights which lead to a presumption of power may be required.</p> <p>Paragraph AG9.5 is more definitive; it lists five rights and one ability, the possession of any of which leads to a presumption of power. We note that the application of paragraphs AG9.4 and AG9.5 could lead to more than one entity being presumed to have power, and that paragraph G9.14 (determine which party has the current ability to direct the activities that most significantly affect the returns of the controlled entity) will be applicable in reaching a conclusion as to which has power.</p> <p>We think presumptions about power should be made in limited cases because the concept can be judgemental. We note that IFRS 10 does not require an entity to make presumptions about power (or control more broadly), and the proposals in IASB/ED/2022/1 only make presumptions about control in the limited cases set out in paragraph 9.5. See our response to Question 10b) below for a more detailed discussion about paragraph G9.18, which relates to proposed paragraph 9.5 in IASB/ED/2022/1.</p>
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		<p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - In the first sentence of paragraph AG9.4, consider changing ‘power is likely to mainly be achieved’ to ‘power is likely to be achieved mainly’. - Consider relocating the phrase ‘the controlling NPO does not own the majority of voting rights, but can exercise voting rights held by others’ from the third to the second sentence of paragraph AG9.4, so that the second sentence contains all discussion of voting rights and the third sentence refers to other decision-making rights. - Consider clarifying in paragraph AG9.4 that the simple ability to exercise voting rights held by others does not result in a presumption of power, unless these voting rights enable the entity to exercise a <i>majority</i> of voting rights. - The example ‘other decision-making right’ cited in subparagraph AG9.4(a) appears to duplicate a concept from the leading sentence, and could be deleted.
<p>b) Do you agree that a rebuttable presumption relating to control should be retained? Is the current drafting sufficient? If not, what would you propose and why?</p>	<p>G9.17</p>	<p>We think G9.18 is the relevant paragraph. Paragraph G9.18 contains three tests for the existence of control (owning the majority of voting rights; voting rights held through a governance arrangement; and holding half or less of the voting power but meeting certain criteria). We think it is unclear whether the rebuttable presumption is intended to apply only to the first test (owning the majority of voting rights). In the proposals in IASB/ED/2022/1, the rebuttable presumption only applies to owning voting rights, but that document does not include requirements about holding voting rights through a governance arrangement. If the rebuttable presumption is intended to apply to both the first and second tests, we think it may be clearer to merge them together.</p> <p>The drafting of the second test in paragraph G9.18 (voting rights held through a governance arrangement) implies that control exists if <i>any</i> voting rights are held because of a governance arrangement established to deliver an NPO’s objectives or purposes. We think it would be appropriate for this test to require a <i>majority</i> of voting rights to be held because of a governance arrangement established to deliver an NPO’s objectives or purposes.</p>

		<p>The following suggestion may resolve both these points:</p> <p><i>Control is presumed to exist when the NPO owns-holds, directly or indirectly through controlled entities, the majority of the voting rights of an entity. <u>Voting rights may be held either as a result of ownership, or of a governance arrangement established to deliver an NPO's objectives or purposes. The That presumption of control may be overcome if it can be clearly demonstrated that the NPO does not have one or more of the elements of control listed in paragraph G9.5. Control will exist if voting rights are held, not as a result of ownership, but because of a governance arrangement established to deliver an NPO's objectives or purposes.</u></i></p> <p>The third test (holding half or less of the voting power but meeting certain criteria) is based on the final part of extant paragraph 9.5 in the <i>IFRS for SMEs</i> Accounting Standard. IASB/ED/2022/1 proposes to replace that requirement with a new proposed paragraph 9.5A, which more generically describes examples of agreements and rights that may exist rather than a closed list. We think you should consider making the same change in the Guidance. Presenting this as a new paragraph would make it clearer that the third test is not a rebuttable presumption, and will update the language to better reflect the principles of IFRS 10.</p>
<p>c) Is the Application Guidance sufficient to apply the fundamental characteristics of faithful representation and relevance to consolidation? If not, what additions would you propose and why?</p>	<p>G9.21-G9.22, AG9.17-AG9.19</p>	<p>The fundamental characteristics of faithful representation and relevance are explained in Section 2 in more detail than the Application Guidance therefore it may be convenient to direct the reader to those requirements instead of duplicating some text in the Application Guidance. Paragraph G9.22 proposes that an entity should only be excluded from consolidation in exceptional circumstances. If Application Guidance is to be provided it may be useful to include some examples of those exceptional circumstances.</p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - We think that paragraph G9.24 should be moved immediately before paragraph G9.22 so that it is presented together with the other requirements about controlled entities not excluded from consolidation.

<p>d) Do you agree with the use of the terms 'controlling NPO', 'controlled entity' and 'beneficial interest' instead of 'parent', 'subsidiary' and 'investment'? If not, what would you propose and why?</p>	<p>G9.7, G9.24</p>	<p>In general, we recommend caution about replacing established terms and concepts from the <i>IFRS for SMEs</i> Accounting Standard without clear benefit.</p> <p>In this case, we think that the using the terms 'controlling NPO' and 'controlled entity' instead of 'parent' and 'subsidiary' is not necessary. The definitions of the new terms are the same as the definitions of the original terms, so the Guidance is not introducing any new concepts or interpretations. Using the established terms should aid understanding.</p> <p>The question suggests that 'investment' is replaced with 'beneficial interest', but the Guidance seems to replace 'investment' with 'investment or beneficial interest'. We think that commenting on the replacement of the term may require sight of the proposed drafting of Sections 14 (Investments in Associates) and 15 (Investments in Joint Ventures), or other requirements that would address the recognition of 'beneficial interests'.</p> <p><i>Drafting comments:</i></p> <ul style="list-style-type: none"> - In paragraphs AG9.3, AG9.5, and AG9.17, the term 'parent NPO' is used rather than 'controlling NPO'. - In some places the term 'parent' is retained or put in brackets. We think if the term 'controlling entity' is used the substitution should be applied consistently. For example, paragraphs G2.45 and G9.1 and the definitions of 'group' and 'combined financial statements' all include reference to 'parent'.
<p>[Consolidation procedures]</p>		<p>Although the consultation does not ask for feedback on this topic specifically, we think that the requirements in paragraph AG9.22 about consolidating funds might not result in a faithful representation of the position of the group.</p> <p>Paragraph AG9.22 would require that where the entity being consolidated is an NPO, its funds with restrictions are to be consolidated into the controlling NPO's funds with restrictions, and its funds without restrictions are to be consolidated into the controlling NPO's funds without restriction.</p>

	<p>We think that funds without restrictions in a controlled NPO entity's individual financial statements may not necessarily be without restriction from the perspective of the group as a whole. For example, funds may be restricted to the charitable purpose of the controlled NPO entity only (therefore qualifying as 'unrestricted' from the perspective of the controlled NPO), but if that charitable purpose is narrower than the charitable purpose of the controlling NPO the funds should be 'with restriction' in the consolidated financial statements of the group.</p> <p>In the UK, this is addressed by Paragraph 24.25 of the Charities SORP: "<i>In the consolidated balance sheet, the charitable funds of the parent charity and the subsidiary charity must not be consolidated on a line-by-line basis; instead, the subsidiary charity's funds should be shown as a component of restricted funds – unless the subsidiary and parent have identical purposes. Where the purposes are identical, the unrestricted funds of the subsidiary are a component of the unrestricted funds of the group.</i>"</p>
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Question 11: Approach to accounting policies, construction of estimates and accounting for errors	This Section sets out the requirements for disclosure and approach to accounting policies, estimates and errors. There are no known NPO specific issues for this Section with modifications made to align with other Sections.	
	References	Responses
a) Do you agree with the updates to Section 10 and that there are no additional NPO specific considerations that need to be addressed in this Section? If not, what changes or additions would you propose and why?		We agree. In FRS 102 we do not include any requirements specific to 'public benefit entities' in Section 10 <i>Accounting Policies, Estimates and Errors</i> .

<p>Question 12: Scope and content of narrative reporting</p>	<p>This is a new Section that has been written specifically for NPOs. It sets out the principles for narrative reporting, including the qualitative characteristics of the information to be included in the reports. It mandates the requirement for financial analysis and performance information to be included in general purpose financial reports. It leaves as optional any additional information that an NPO may wish to report on, such as sustainability reporting. It includes an exception, where information might be prejudicial to the operation of the NPO and the safety of its staff and volunteers.</p>	
	<p>References</p>	<p>Responses</p>
<p>a) Do you agree with the principles proposed to underpin narrative reporting? If not, what would you propose to change and why?</p>	<p>G35.3-G35.7</p>	<p>In our response to question 4(c) we have summarised to the UK approach to narrative reporting. The FRC does not set narrative reporting requirements in the UK. However, we issue guidance on narrative reporting and support high quality narrative reporting that provides decision-useful information to users.</p>
<p>b) Do you agree with the scope of the minimum mandatory requirement, with additional information, such as sustainability reporting to be optional? If not, what changes should be made and why?</p>	<p>G35.8-G35.19, G35.30, AG35.2-AG35.13</p>	<p>In the UK the Charities SORP sets out narrative reporting requirements for charities.</p> <p><u>Potential conflict with existing requirements</u></p> <p>Some jurisdictions' domestic legislation may already include mandatory narrative reporting requirements. Consistent with our answer to Question 4c), we think that mandatory narrative reporting requirements within the Guidance could create unintended consequences, for example if the requirements duplicate or conflict with existing requirements an entity may be required to produce information twice.</p> <p><u>International initiatives</u></p> <p>There are several international initiatives developing non-financial reporting frameworks and the Guidance may benefit from consistency with those initiatives, rather than taking its own approach. In the interim, we recommend that this area is addressed by developing a set of high-level principles for non-financial reporting.</p> <p><u>Efficiency within groups</u></p> <p>Paragraph G35.4 sets out an overall principle that the performance information and financial statement commentary presented shall be for the same reporting NPO and reporting period as the financial statements.</p>

		<p>We think this will mean that where the reporting NPO prepares consolidated financial statements the narrative reporting will relate to all entities included in the consolidation. This may provide an opportunity for efficiency within the group, for example allowing the parent entity and subsidiary entities to provide less narrative reporting on the basis that users of financial reports can obtain the information from the group report. For example, in the UK when a company is a parent company that prepares group accounts the strategic report must be a group strategic report relating to the undertakings included in the consolidation. The entity therefore does not have to prepare a full separate strategic report covering the parent entity individually, although certain disclosures may still be required at company level.</p>
<p>c) Do you agree with the proposals that sensitive information can be excluded from narrative reports? If not, what alternative would you propose and why?</p>	G35.7	<p>In paragraph 21.17 of FRS 102 entities are permitted not to disclose some information if doing so could be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. We note that the basis for excluding the information is different and that even drawing attention to the sensitive items at a high level, as would be required in applying paragraph 21.17, might be a risk to a person whom the NPO is trying to protect. The FRC does recognise the appropriateness of not requiring disclosures in certain sensitive circumstances.</p>
<p>d) Should a two-year transition period for narrative reporting be permitted to assist in overcoming any implementation challenges? If not, what alternative would you propose and why?</p>		<p>The implementation challenges are likely to depend partly upon the existing requirements for narrative reporting and the extent to which new processes will need to be developed. The requirements of proposed Section 35 are set at a level that we would anticipate being deliverable within a two-year transition period.</p>

Appendix

FRS 102 definition of a 'public benefit entity'

An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.

The term 'public benefit entity' does not necessarily imply that the purpose of the entity is for the benefit of the public as a whole. For example, many PBEs exist for the direct benefit of a particular group of people, although it is possible that society as a whole also benefits indirectly. The important factor is what the primary purpose of such an entity is, and that it does not exist primarily to provide economic benefit to its investors. Organisations such as mutual insurance companies, other mutual co-operative entities and clubs that provide dividends or other economic benefits directly and proportionately to their owners, members or participants are not PBEs.

Some PBEs undertake certain activities that are intended to make a surplus in order to fund their primary activities. Consideration should be given to the primary purpose of an entity's (or group's) activities in assessing whether it meets the definition of a PBE.

PBEs may have received contributions in the form of equity, even though the entity does not have a primary profit motive. However, because of the fundamental nature of public benefit entities, any such contributions are made by the equity holders of the entity primarily to enable the provision of goods or services to beneficiaries rather than with a view to a financial return for themselves. This is different from the position of lenders; loans do not fall into the category of equity.

Source: Appendix 1 *Glossary of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* available at <https://www.frc.org.uk/accountants/accounting-and-reporting-policy/uk-accounting-standards/standards-in-issue/frs-102-the-financial-reporting-standard-applicabl>