



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)

Western India Regional Council

WIRC/ICAI/10828/2024

16 August 2024

The Secretariat

Accounting Standards Board
The Institute of Chartered Accountants of India
ICAI Bhawan, P.B. No.7100, Indraprastha Marg,
New Delhi- 110 002, India.

Dear Sir/Madam,

Please find attached two comments on "**Exposure Draft on International Non-Profit Accounting Guidance (INPAG)- Part 3**". Kindly take the same on record.

Regards,

CA. Ankit Rathi
Chairman WIRC



Comments on Exposure Draft INPAG Part 3 (ED3):

Introduction:

We appreciate the opportunity to comment on the International Non-Profit Accounting Guidance (INPAG) Exposure Draft Part 3 (ED3). We commend the efforts of the IFR4NPO project in developing a comprehensive and globally applicable financial reporting framework for Non-Profit Organizations (NPOs). Our comments below reflect our perspective, drawing on our experience in the sector and the needs of smaller NPOs.

1. Fund Accounting:

Comment on Fund Classification and Disclosure:

We agree with the proposed approach to fund accounting, including the criteria for distinguishing between restricted and unrestricted funds. However, we recommend further clarification on the practical application of these criteria, particularly for smaller NPOs. We suggest introducing a simplified method for tracking and disclosing immaterial funds to reduce the reporting burden on smaller organizations while maintaining transparency.

2. Expense Classification:

Comment on Default Classification and Cost Allocation:

We support the default classification of expenses by nature, as it aligns with the needs of most NPOs. However, we urge the consideration of providing more detailed guidance on when a functional or mixed classification would be more appropriate. We also recommend a simplified cost allocation approach for smaller NPOs, focusing on direct costs with optional disclosure of shared and support costs, to streamline their reporting requirements.

3. Equity Claims:

Comment on the Terminology and Conceptual Framework:

The replacement of "equity" with "net assets" and the introduction of "equity claims" are appropriate given the non-profit context. These terms better reflect the fiduciary nature of NPOs. However, we suggest additional examples and illustrative scenarios to help NPOs understand the implications of this terminology on their financial statements, especially for those with more complex organizational structures.



4. Transition to INPAG:

Comment on Transitional Provisions and Compliance:

We appreciate the provision for a two-year transitional period for NPOs to fully comply with INPAG. This period is essential for organizations to adapt to the new requirements. However, we recommend extending this period for smaller NPOs to three years, recognizing their limited resources and capacity for rapid implementation. Additionally, we suggest that INPAG consider offering a simplified compliance option during the transition, focused on financial statements only, without the immediate requirement for full narrative reporting.

5. Fair Value Measurement:

Comment on Handling Fluctuations and Simplified Reporting:

The guidance on fair value measurement is thorough, but we are concerned about the potential volatility it introduces into the financial statements of smaller NPOs. We propose offering an alternative option for these organizations to report donated assets at historical cost rather than fair value, where applicable. This approach would reduce the complexity of financial reporting and provide a more stable view of the NPO's financial position.

6. Tax Provisions for NPOs Engaged in Commercial Activities:

Comment on Current and Deferred Tax Provisions:

We recommend that INPAG include explicit guidance on recognizing and disclosing current and deferred tax provisions for NPOs with unrelated business income. This guidance should address the need for NPOs to account for Deferred Tax Assets (DTA) and Deferred Tax Liabilities (DTL) where there are timing differences between tax and accounting treatments. Simplified approaches for smaller NPOs, such as higher materiality thresholds or exemptions for minor commercial activities, should also be considered.

7. Smaller NPOs: Simplified Guidance:

Comment on Tailored Guidance for Smaller NPOs:

We strongly recommend the development of a simplified version of INPAG tailored specifically for smaller NPOs. This version should feature reduced disclosure requirements, simpler fund accounting, and cost-based asset measurement options. The introduction of such guidance would ensure that smaller organizations can comply with INPAG without being overwhelmed by the complexity designed for larger entities.



8. Adoption of Other Comprehensive Income (OCI) for Fair Value Fluctuations:

Comment on the Use of OCI:

We recommend that the International Non-Profit Accounting Guidance (INPAG) explicitly incorporate the concept of Other Comprehensive Income (OCI) to manage fluctuations in the fair value of assets held by Non-Profit Organizations (NPOs). The use of OCI would allow NPOs to report operational results separately from market-driven changes in asset values, thereby providing a clearer picture of their financial performance related to mission-driven activities.

Rationale for OCI:

- **Mitigating Volatility:** NPOs that hold assets at fair value, such as investments or donated assets, often face significant volatility in their financial statements due to market fluctuations. By recording these fluctuations in OCI, NPOs can present a more stable and accurate view of their operational performance, while still providing transparency about the impact of market conditions on their financial position.
- **Enhanced Transparency and Accountability:** Using OCI enhances the transparency of financial reporting by clearly segregating operational income from market-based gains and losses. This distinction is crucial for stakeholders who rely on financial statements to assess an NPO's financial health and decision-making effectiveness.
- **Alignment with For-Profit Practices:** Adopting OCI aligns NPO financial reporting with practices commonly used in the for-profit sector, making it easier for stakeholders to understand and compare financial statements across different types of entities.

Proposed Implementation:

- **Guidance Development:** We suggest that INPAG include specific guidance on which types of gains and losses should be recognized in OCI and under what circumstances these amounts should be reclassified to the statement of income and expenses. This guidance should also address the presentation and disclosure of OCI items within NPO financial statements.
- **Optional Adoption:** Given the diversity in the size and complexity of NPOs, the use of OCI should be presented as an optional approach, particularly beneficial for larger NPOs with significant investments or financial instruments.
- **Stakeholder Communication:** To ensure stakeholders understand the implications of OCI, we recommend including narrative reporting requirements that explain the nature of OCI and its impact on the NPO's financial statements.

Conclusion:

We believe that the INPAG represents a significant step forward in standardizing financial reporting for NPOs worldwide. By incorporating the above suggestions, particularly those related to smaller NPOs, the guidance will be more inclusive, practical, and beneficial across the sector.