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Submission via website: <https://www.ifr4npo.org/consultation-paper-response/>

Dear Sam,

Submission on Consultation Paper – International Financial Reporting for Non-Profit Organisations (Part 2)

As the representatives of over 280,000 professional accountants, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) thank you for the opportunity to comment on Part 2 of the above Consultation Paper (“the CP”). In providing this feedback, we have used the term not-for-profit (NFP) rather than the term NPO used in the CP, albeit both terms refer to the same types of institutions.

We are strong supporters of the NFP sector and many of our members are involved with the sector in Australia and New Zealand as advisors, auditors, employees and volunteers.

As stated in our submission to Part 1 of the CP, we believe the International Financial Reporting Standard for Small and Medium-sized Enterprises (IFRS for SMEs) is the most appropriate international framework to start from when developing the initial International Financial Reporting Guide for NFPs (the guide). The IFRS for SMEs standard contains two important introductory conceptual sections; Section 1 (defining small and medium-sized entities) and Section 2 (concepts and pervasive principles), which help to clearly identify the target audience and the fundamental accounting principles underpinning the standard. Such a conceptual basis is necessary both to support the development and implementation of the more specific accounting policies and disclosures that will comprise the new guide and to enable it to be a stand-alone reference document for the NFP sector. Therefore, we recommend that, as part of the development of the first iteration of the guide, similar ‘scope’ and ‘concepts and pervasive principles’ chapters are developed.

Our responses to the specific matters for comment in Part 2 of the CP are included in the **Attachment**. If you have any questions about our submission, please contact either Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Your sincerely

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Attachment

Specific Matters for Comment 0

- a. Is the list of NPO-specific financial reporting issues complete? If not, please provide information about the further issues that you believe are specific to NPOs, or issues that should be removed, together with supporting reasoning for the change(s) you propose.
- b. Do you agree with the criteria used to evaluate the list of issues? If not, what changes would you make and why?
- c. Do you agree with the topics prioritised for the Consultation Paper? If not, outline which topics should be added or removed and why.

- a. As stated in the cover letter, we believe it is important that the new guide includes a 'scope' section and a section on 'concepts and pervasive principles' that underpin the financial statements that will be prepared by applying the guide.

The purpose of the 'scope' section would be to provide clarity and direction on the types of NFPs that would most benefit from applying the guidance. It would synthesise the key elements of the material that is currently contained in Part 1 of the IFR4NPO discussion paper on this issue.

The purpose of the 'concepts and pervasive principles' section would be to set out the objective of financial reporting under the guide and the qualitative characteristics and key definitions for the information contained therein, as well as set out the overall recognition, measurement, presentation and disclosure criteria that are relevant to NFP financial statements. Such concepts and pervasive principles provide an important reference point when developing and underpinning the requirements of the various topical sections discussed in the CP.

One particular concept that will be of key importance is the definition and use of the term 'reporting entity'. The CP appears to limit the discussion of 'reporting entity' to 'control' and 'principal versus agent' considerations, without addressing the broader aspects of this issue that are important in developing an effective financial reporting framework. Clearly identifying and defining the reporting entity not only has implications for consolidation and revenue recognition, but also for the bases that underly financial report preparation and presentation, such as identifying users, determining the reporting period and assessing the going concern basis of preparation. We therefore recommend that this concept is dealt with more holistically as a fundamental principle, rather than a specific issue.

- b. We agree with the four criteria (prevalence, consequence, demand and feasibility) that have been used to evaluate the list of issues to be addressed in the first version of the guide. Given their fundamental importance to the effective implementation of the guide, a clear discussion of how these criteria have been applied to support the 'concepts and pervasive principles' should be included as part of that section.
- c. We also believe the following topics should be added to the first version of the guide for the reasons stated below:

- **Simple financial assets, including investments** – We expect this to be a common topic for NFPs, given that many need to, and do, hold investments to fund their activities. Consistent recognition and measurement requirements are important to ensure appropriate accountability for funds under an NFP's control.
- **Consolidation** – Although control is discussed in the context of the 'reporting entity' and paragraph 5.5 of the CP indicates that consolidation will be addressed as a separate topic in a subsequent phase, we believe it is more appropriate to address it in the first phase. This is because consolidation considerations are relevant to the existing structures of many NFPs for whom the proposed guidance is intended and the significant diversity in practice that currently exists presents accountability challenges.
- **Related party transactions** – Disclosures in respect of related party transactions are an important source of information about how an NFP discharges its governance and accountability obligations and therefore should be prioritised.
- **Remuneration/pay disclosures** – Similar to disclosures of related party transactions, disclosure of remuneration to key management personnel is an important source of information on how NFPs are discharging their governance and accountability obligations.
- **Leases** – We note that while the CP identifies concessionary leases as a topic for a later project phase, no consideration has been given in this section to the broader issue of accounting for leases. We are aware that many NFPs who have leases face cost benefit challenges when considering the adoption of IFRS 16 *Leases*. Therefore, we are of the view that there is an immediate need to provide the NFPs who will use this guide with a recognised alternative solution based on the approach offered by the current version of IFRS for SMEs.

We also note that the topics 'service concessions in NPOs as grantor' and 'service concessions arising in NPOs as operator' are included for consideration in later project phases (see item numbers 18 and 19 in Table 2.2). In our view, the former topic is relevant to the public sector and the latter topic is relevant to the for-profit sector. We are not aware of prevalent accounting issues in the private NFP sector on these two topics.

Specific Matters for Comment 1

- Do you agree with the description of issue 1: Reporting entity and control (including branches)? If not, why not?
- Do you agree that the list of alternative treatments that should be considered for issue 1 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 1? If you do not agree, please set out the changes you propose, and why these should be made.
- Please identify the alternative treatment that you favour for issue 1, and the reasons for your view.

- Further to our responses to Specific Matters for Comment (SMC) 0.a and 0.c we are concerned with the way that the 'control' aspect of the reporting entity concept has been articulated. Without the associated considerations of entity boundaries and guidance on consolidation, the ability of NFPs to apply this guide will be hampered, especially given the

existing identified complexity of many NFP structures. We therefore recommend that these issues be addressed as part of the discussion of this topic in the first version of the guide. We also suggest that the discussion be extended to cover the issues of including for-profit subsidiaries and materiality for consolidation purposes.

- b. Yes, we agree.
- c. Yes, we agree.
- d. We prefer alternative 2. An approach that is consistent with the IFRS for SMEs aligns with our overall support for the use of the IFRS for SMEs expressed in our response to Part 1 of the CP. Using the IFRS for SMEs simple pragmatic approach to determining control for consolidation purposes in the first version of the guide will make initial implementation easier. It will also provide insights to the project team on what issues need to be addressed at a more principles-based level for subsequent versions of the guide.

Specific Matters for Comment 2

- a. Do you agree with the description of issue 2: NPOs acting on behalf of other entities? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 2 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 2? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 2, and the reasons for your view.
- e. Additional disclosures are proposed under all alternatives for issue 2. Outline any challenges you would anticipate with the proposed disclosures? Are there additional disclosures that might be more relevant?

- a. We are concerned that the current discussion of this issue conflates the aspects of this topic that are related to 'reporting entity boundaries' and 'consolidation' with broader issues concerning an NFP's purpose and objectives. In general, NFPs are entrusted with assets and resources to be used or applied in conducting activities in accordance with the direction(s) of the providers of the assets or resources. It could therefore be argued that NFPs are usually 'agents' of either a section of society or society at large. For this reason, drawing a line that separates instances where an NFP acts as a principal, versus where it acts as an agent, may cause practical challenges due to the underlying nature of the sector.

However, we do acknowledge that within the context of determining and reporting within the boundaries of the reporting entity, there are instances where there is a need to provide guidance on the principal versus agent issue. While the description provided is adequate in itself it needs to be placed within the broader concept of 'reporting entity'.

We also believe that the agency concept has a broader application to the accountability of NFPs. Mismatches can arise between the donor intention for the use or application of

resources provided to NFPs, and the restrictions NFPs may face in undertaking activities that fulfil donor intentions, due to the nature of the NFP's constitution and objects. As an example, in response to the Black Summer bushfire disaster of 2019-2020 that affected some parts of Australia, philanthropic-minded people both domestically and internationally provided significant funds to some NFPs that were undertaking relief and recovery activities. Concerns were then raised, and reported in the Australian media, about whether these NFPs had utilised the resources either in a timely manner and or for their intended purpose(s). Although subsequent [enquiries by the Australian charities regulator](#) found that the NFPs involved had acted in good faith and in accordance with their governance and accountability obligations, some important lessons learnt included:

- A need to educate donors about what activities NFPs can and cannot undertake with resources received by them, and about the costs that are incurred in undertaking and administering programs.
- The importance of effectively communicating to donors the intended application of resources to be raised through fundraising initiatives and then demonstrating accountability once the funds have been received/spent.

While we appreciate that financial reporting disclosures cannot be the only answer to these challenges, we recommend that these issues be considered when addressing broader issues about reporting on an NFP's activities and objectives (also see our response to SMC 9).

- Yes, we agree.
- Yes, we agree.
- We prefer alternative 1 and support the sentiments expressed in paragraph 5.7 of the CP. Although we have expressed an overall preference for using the IFRS for SMEs as the basis for developing the guide, we believe it is appropriate to adopt the indicators of control approach adopted in IFRS 10 rather than the risks and rewards approach adopted in the IFRS for SMEs. This is because:
 - The approach based on risks and rewards has largely been replaced within the IFRS framework with a more sophisticated control-based approach that is likely to be the prevalent method in determining control going forward.
 - As noted in alternative 2, the IFRS for SMEs is currently being reviewed and an update that may include alignment with IFRS 10 is being considered. In our response to the consultation on the review of the IFRS for SMEs, we have supported alignment of the definition of 'control' between IFRS and the IFRS for SMEs.
- We support the proposal for additional disclosures. In this regard, where NFPs undertake significant activities as an agent, disclosures of such activities as "administered items" may be appropriate. Although this is not a topic that is addressed in IFRS or IPSAS, the Australian Accounting Standards Board (AASB) has developed and issued [AASB 1050 Administered Items](#) to address disclosures by public sector entities in Australia. These disclosures are considered useful in the public sector, but we have not identified evidence to suggest such disclosures would be helpful in the NFP sector. Therefore, we do not believe that this issue needs to be a high priority for the first version of the guide.

Specific Matters for Comment 3

- a. Do you agree with the description of issue 3: Non-exchange revenue? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 3 is exhaustive? If not, please describe your additional proposed practical alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 3? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 3, and the reasons for your view.
- e. If you favour an alternative other than alternative 4 for issue 3, do you consider that the exceptions to the recognition and measurement of gifts in-kind and services in-kind should be available under your preferred option?
- f. Are there any practical considerations, for example impacts on tax or audit thresholds, or questions that arise in implementing your preferred option for issue 3?

- a. We agree with the description of issue 3 but are concerned that it insufficiently recognises the challenges that can occur when differentiating, and then subsequently accounting for, exchange revenue and non-exchange revenue. In Australia, when IFRS/AASB 15 *Revenue from Contracts with Customers* was adopted, the AASB developed additional implementation guidance ([Appendix F to AASB 15](#)) and [AASB 1058 Income of Not-for-profit Entities](#) to assist NFPs apply this standard, as required. Despite this additional guidance, the Australian NFP sector continues to encounter challenges in classifying many types of NFP income (e.g. different types of grants) as exchange revenue under the principles and requirements of AASB 15. These challenges are principally associated with the issue of determining “sufficiently specific performance obligations”.

As a result, even though income may be received with the intention of being applied over a period that extends beyond the year of receipt, NFPs are being forced to recognise such income as revenue in the year of receipt. The non-availability of IAS 20/AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* to the Australian NFP sector has further exacerbated these challenges.

- b. Yes, we agree.
- c. Yes, we agree.
- d. We support the approach in alternative 2 that requires non-exchange revenue to be recognised on a systematic basis over the period an NFP incurs related expenditure. This is on the basis that it provides a practical deferral mechanism for the non-exchange revenue received in a particular period.

However, we do not agree that it is necessary to separate out gifts in-kind and recognise them on a different basis. Gifts in-kind could include substantial assets such as property or vehicles with significant value and with utility over multiple reporting periods. Therefore, we consider that deferral would more appropriately reflect the utility of that asset to the entity.

While we recognise that measuring the value of services in-kind can often be challenging, we note that the proposals would only require recognition of services in-kind when it is possible to measure them reliably. They too should be allowed to be deferred if that reflects the pattern of service delivery.

- e. See our response to SMC 3.d.
- f. Any of the proposed alternatives could have an impact on audit or tax thresholds. However, in our view, the setting of reporting or audit thresholds is a matter for NFP regulators in specific jurisdictions and should not be a matter for consideration as part of this project. The more important issue is to standardise the financial reporting so that these regulators can make their decisions based on higher quality and more consistent information.

Specific Matters for Comment 4

- a. Do you agree with the description of issue 4: Grant expenses? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 4 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 4? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 4, and the reasons for your view.

- a. While we agree with the description of the issue, we have not received feedback that suggests that entities in the NFP sector face challenges relating to the recognition of obligations associated with commitments to provide grants in future periods, in their financial statements. In our jurisdictions, grant expenses incurred by NFPs are generally recognised as expenses in the period they are paid to the recipient.
- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 1. We believe the requirements of the IFRS for SMEs, complemented by the proposed additional guidance, should adequately address the recognition of grant expenses, providing consistent and useful information without imposing an unreasonable cost on preparers. We note that our recent [submission](#) to the [IPSASB's ED 72 Transfer Expenses](#) argued that its proposals would be difficult and costly to implement in practice.

Specific Matters for Comment 5

- a. Do you agree with the description of issue 5: Measurement of non-financial assets held for service benefit? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 5 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 5? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 5, and the reasons for your view.
- e. Do you agree that land and buildings (or sub classifications thereof) used to provide services should be measured using the revaluation model and specifically a measurement which reflects the 'value in use' or the operational capacity to an NPO? Could it provide useful information to users?

- a. We broadly agree with the description of issue 5, subject to the comments below.

Issue 5 is titled "Measurement of non-financial assets held for social benefit" while the question refers to "Measurement of non-financial assets held for service benefit". We presume the issue relates to "social benefit" rather than "service benefit" and have responded accordingly.

Paragraph 3.1 refers to the "measurement of tangible assets and leases". However, the accounting standards listed do not include any of the IFRS or IPSAS that address lease accounting. While we note that concessionary leases are to be considered in later project phases and that paragraph 1.6 of the CP notes that it does not consider lease arrangements involving right-of-use assets, no proper consideration has been given in this section to accounting for leases under the IFRS for SMEs, IFRS or IPSAS. As per our response to SMC 0.c, we believe consideration of accounting for leases is relevant to the first version of the guide, particularly given the new approach to lease accounting introduced through IFRS 16 *Leases*. We also suggest that the lease accounting approach adopted in the IFRS for SMEs would be the most suitable accounting approach for the first version of the guide.

- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 2. We believe it is important for NFPs to have the ability to measure their non-financial assets based not just on their income-generating capacity but also based on their service potential.
- e. Yes, we agree.

Specific Matters for Comment 6

- a. Do you agree with the description of issue 6: Inventory held for use or distribution? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 6 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 6? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 6, and the reasons for your view.

- a. In our experience, accounting for donated inventory is a significant challenge faced by NFPs when accounting for inventory. In this context, we agree with the description of issue 6.
- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 1. We believe the principles and requirements in the IFRS for SMEs (also reflected in IAS 2), complemented by the proposed additional guidance, should adequately address the accounting for inventories by NFPs and provide users with the consistent and useful information they require without imposing significant costs on preparers.

Specific Matters for Comment 7

- a. Do you agree with the description of issue 7: Financial Statement Presentation? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 7 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 7? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 7, and the reasons for your view. In your response please consider the presentation of unrestricted reserves allocated for internal purposes.
- e. The term statement of financial performance is used in the consultation paper to describe the statement that contains an NPO's revenues and expenses. Do you agree with the use of this term? If not, describe your preferred term and explain your reasoning.

- a. Yes, we agree.

- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 2 because we support using the IFRS for SMEs as the basis for the guide. We also support the proposed use of fund accounting to present the split between restricted and unrestricted income on the face of the income statement.
- e. Yes, we agree.

Specific Matters for Comment 8

- a. Do you agree with the description of issue 8: Classification of expenses? If not, why not?
- b. Do you agree that the list of alternative approaches that should be considered for issue 8 is complete? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 8? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative approach that you favour for issue 8, and the reasons for your view. When considering your preferred approach please comment on which alternative:
 - i. provides the best information about the key components of expenses or drivers of performance/activities?
 - ii. most closely matches how management reports internally and the way the operation is run (to assist with the cost/benefit assessment)
 - iii. whether the alternatives link to any key ratios that might be given in the narrative reporting (and therefore should be something that can be disclosed and reconciled to)
 - iv. whether the alternatives permit accountability.
- e. Do you think that the alternatives for issue 8 provide the right balance between information presented on the face of the performance statements or in the notes?
- f. Would the allocation of expenses to functions outlined in issue 8 be so arbitrary that it would not provide a sufficiently faithful representation of the composition of an entity's functions?
- g. Are there any practical questions that arise in implementing your preferred option for issue 8?

- a) Yes, we agree with the description of issue 8. The objective of General Purpose Financial Statements (GPFS) is to provide information that meets the common information needs of a broad group of users in a cost-effective manner and so it is unreasonable to expect that they can be a solution for all the reporting demands placed on an NFP. Nevertheless, this guide's aim for a standardised and recognised GPFR framework, supported by additional narrative reporting that addresses key issues is likely to be a cost-effective reporting option for the sector. It can then be readily supplemented with the additional specific information individual users (grant providers or lenders) may require.

- b) Yes, we agree.

- c) Yes, we agree.
- d) We support alternative 4. In our view, combining elements of nature and function analyses to produce a single analysis is likely to meet the needs of a broad range of stakeholders in the NFP sector. We also note that New Zealand adopts this approach for its Tier 3 simplified accruals-based standard for NFPs. The New Zealand Accounting Standards Board (NZASB) recently conducted a post-implementation review of its NFP simple format reporting standards (including the Tier 3 standard) and has received overall positive [feedback](#).
- e) Yes, we believe they do.
- f) A degree of subjectivity is likely to arise regardless of which approach is adopted under the various alternatives proposed. In our view, a mixed approach, as proposed under alternative 4, is likely to allow entities sufficient flexibility in presenting expense information that meets the information needs of a wide range of stakeholders. However, it will be important to emphasise that the presentation approach adopted should faithfully represent the underlying financial information and that entities should be consistent with their choices for comparability purposes year on year. If the entity is subject to audit, this will assist in reducing the potential subjectivity risk.
- g) We have not identified any practical questions at this stage but expect these will become apparent as NFPs begin applying the guide when preparing their financial statements.

Specific Matters for Comment 9

- a. Do you agree with the description of issue 9 – Fundraising costs? If not, why not?
- b. Do you agree that the list of alternative approaches that should be considered for issue 9 is complete? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting approach for issue 9? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative approach that you favour for issue 9, and the reasons for your view.
- e. Do you agree that all fundraising costs should be presented gross? If not, please provide example of where this might not apply and the reasons for your view.

- a. We agree with the observation in paragraph 1.2 that fundraising activities, and therefore costs, are not easy to define. However, if such a definition is not developed, there is a risk of inconsistent application of specific accounting requirements applicable to fundraising costs. Otherwise, we agree with the other points made in describing issue 9.

In Australia, fundraising regulation has been a problematic and challenging issue affecting NFPs for many years. This is because fundraising regulation has been the responsibility of each Australian state and territory which has resulted in an inconsistent and burdensome regulatory framework for NFPs that operate across state/territory borders. Although a

significant amount of progress has been made in reforming Australia's fundraising regulatory framework, a nationally consistent and cost-effective regulatory framework is not yet in place. Any efforts made as part of this project to address the accounting for fundraising costs may also contribute to the reform of Australian fundraising regulation.

We also refer you to our response to SMC 2.a which provides further detail about the importance of clear fundraising requirements to promote and improve accountability in the sector.

- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 3. We believe NFP-specific guidance should be developed to address this important area of financial reporting by NFPs (see our responses to SMC 2.a. and SMC 9.a.)
- e. Yes, we agree.

Specific Matters for Comment 10

- a. Do you agree with the description of issue 10 – Narrative reporting? If not, why not?
- b. Do you agree that the list of alternative treatments that should be considered for issue 10 is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
- c. Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 10? If you do not agree, please set out the changes you propose, and why these should be made.
- d. Please identify the alternative treatment that you favour for issue 10, and the reasons for your view.
- e. Should narrative reporting guidance be set at the level of a framework and principles, rather than any more specific reporting requirements or recommendations? If you disagree, what additional guidance on what specific reporting requirements or recommendations would be beneficial?

- a. We agree with the description of issue 10.
- b. Yes, we agree.
- c. Yes, we agree.
- d. We support alternative 2. However, we believe substantial simplification of the current requirements/recommended practice in IFRS and IPSAS will be required to ensure a cost/benefit balance is achieved for NFPs applying the guide. In particular, we agree with the disadvantages highlighted for alternative 2, including that greater judgement will be required in difficult areas such as forward-looking information and non-financial measures and indicators. Feedback we have received from our members indicates that non-financial measures and indicators for outcomes can be particularly challenging.

In order to avoid some of the challenges associated with the requirements/recommended practice in IFRS and IPSAS, the first version of the guide could include some of the simpler and easier-to-apply principles that currently exist. This could include:

- Entity specific information about how an NFP is structured, managed and governed, such as the nature of entity, its legal form and the constitution or governing document under which it operates.
- Information about an NFP's purpose, its mission, vision, values and objectives.
- Information about any major programs or other initiatives, including those that may stretch over a multi-year period, signposting specific activities that may relate to that particular year.

In this regard, since 2016 New Zealand has been requiring its smaller charities to prepare a Statement of Service Performance. The outcomes of a recently completed [post-implementation review of these requirements](#) revealed that respondents found the objectives and requirements of the statement of service performance (SSP) difficult to understand. This emphasises the need to keep requirements simple, objective and readily obtainable.

We also refer you to the comments in General Matters for Comment 2(b) of our Part 1 submission on this topic.

- Although narrative reporting guidance should be set at the level of a framework and principles, it may be appropriate to provide additional guidance on how to apply the framework and principles. Such guidance could include matters such as those highlighted in our response to SMC 10.d.