

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGED12-03

18 May 2023 – Online

ED2 update – Section 24 Part I *Expenses on grants and donations*

Summary	The paper provides an overview of the substantive comments received from TAG members on the first draft of the Exposure Draft 2 content for Section 24 Part I <i>Expenses on grants and donations</i> and the proposed changes to the Guidance.
Purpose/Objective of the paper	The paper identifies the key issues and proposed textual changes raised by TAG members to the first draft of the Exposure Draft 2 content for Section 24 Part I <i>Expenses on grants and donations</i> . It provides TAG members with the changes proposed by the Secretariat to the text for comment. It also requests TAG members advice on areas that require further consideration prior to the finalisation of the Section.
Other supporting items	TAGED12-02 Revenue
Prepared by	Philip Trotter
Actions for this meeting	Comment on the proposed changes to the Guidance to be included in Exposure Draft 2 and advise on the areas requiring further consideration.

Technical Advisory Group

ED2 update – Section 24 Part I *Expenses on grant and donations*

1. Introduction

1.1 This paper provides:

- an overview of the substantive comments received to each part of the Exposure Draft 2 content for Section 24 Part I *Expenses on grant and donations* and proposed changes to the Guidance text; and
- areas where further TAG member consideration is required prior to the finalisation of the Section for public exposure.

2. Substantive comments received and proposed changes to the Guidance text

2.1 Comments and editorial suggestions were received from five TAG members on the first draft of Section 24 Part I *Expenses on grant and donations*. A large number of these were editorial, and a number of changes have been made as a result to the text of the Guidance to incorporate these suggestions. Minor editorial changes are not covered in this paper. There were, however, also a number of more substantive comments. The substantive comments received, and the proposed changes made to the text as a result of these and the issues raised in TAGED12-02 Revenue are noted below for each part of the Section. Excerpts of the Section text where there have been significant changes are included in Annex A.

Authoritative guidance – core text and Application Guidance

Definition of a grant expense - commensurate value and nominal consideration

2.2 Two members provided comments relating to the definition of a grant expense and items included under the term. The first was the need to note in the core text that nothing of commensurate value is received in exchange for the transfer of resources to the grant recipient. The second was whether the

concept of nominal consideration should be mentioned in the Application Guidance.

- 2.3 The definition of a grant expense, which has been derived from the IPSAS 48 *Transfer Expenses* standard, requires that nothing is directly received by the transferor from the recipient of the transfer. This differs slightly from the common definition of a non-exchange transaction where the focus is on not directly receiving approximately equal value.
- 2.4 It is agreed that guidance is required for those situations where the grant-providing NPO may receive some value from services, goods or other assets being provided directly to it from the grant recipient in exchange for the transfer of resources.
- 2.5 Additional text is proposed for inclusion in the Application Guidance that draws a distinction between grant expenses where nothing is directly received, and relationships that are more akin to procurement where services, goods or other assets are received. The potential range from a nominal amount to an amount just below equivalent value is noted in the new text. Grant-providing NPOs are required to determine how best to reflect the substance of the transaction. This may involve recognising part of the transaction as a grant expense and part as the procurement of services, goods or other assets.
- 2.6 While the definition of a grant expense has not been changed, there are some suggested amendments to the text in the Scope section to introduce the concepts and terminology of limitations and funding arrangements that have been proposed for Section 23 *Revenue*. These are discussed further below.

Question 1:

- (a) Do TAG members agree with the Secretariat's response to the issues raised?**
(b) have any comments on the additional text included in the Application Guidance (AG24.2-AG24.3 in Annex A)?

Recognition and measurement of grant expenses from transactions without binding grant arrangements and when there are no limitations

- 2.7 One member noted that it would be preferable for the recognition and measurement principles to be separately presented, rather than in a single paragraph.
- 2.8 The standard approach of the *IFRS for SMEs* Accounting Standard is to include recognition and measurement principles for transactions together. The Secretariat does agree, however, that given the amount of guidance provided here, the presentation of the recognition and measurement principles will be split. The updated core text now has one paragraph that notes when a grant-providing NPO shall recognise grant expenses, followed by a separate paragraph indicating how a grant-providing NPO shall measure grant expenses. No recognition or measurement principles have been changed from the original text.
- 2.9 In making this presentational change, terminology has been updated to reflect the proposed changes to Section 23 *Revenue* in relation to the concepts and terms of limitations and funding arrangements. Amendments have also been made to promote simplification and ease of use.
- 2.10 These paragraphs therefore now provide recognition and measurement principles for grant expenses from transactions without binding grant arrangements and when there are no limitations (previously these were defined as transactions without binding grant arrangements when there are no restrictions) and subsequent paragraphs now provide recognition and measurement principles for transactions with funding arrangements (previously these were defined as transactions without binding grant arrangement when there are restrictions).
- 2.11 This change has also resulted in an update to the decision tree Figure 24.1 *The recognition and measurement of grant expenses from transactions without binding grant arrangements*.
- 2.12 The revised text and decision tree are included in Annex A.

Question 2: Do TAG members have any comments on the revised text and decision tree (G24.7-G24.12 and Figure 24.1 in Annex A)?

Foreign exchange gains and losses

- 2.13 Timing differences in development of the Sections resulted in the draft Application Guidance for foreign exchange gains and losses in Section 24 Part I *Expenses on grants and donations* not matching the latest proposals contained in Section 30 *Foreign Currency Translations*.
- 2.14 This text has now been updated to clarify that assets or liabilities denominated in a foreign currency that are non-monetary items, such as prepayments related to unmet compliance obligations, should be measured in the reporting currency at their historical cost using the exchange rate at the date of the transaction.
- 2.15 Those that are monetary items, such as grant payables, will need to be restated into the reporting currency using the applicable exchange rates as at the reporting date. Any exchange differences arising on the settlement of assets or liabilities denominated in a foreign currency during the reporting period or on their restatement at the reporting date should be recognised in accordance with paragraphs G30.11-G30.13.

Question 3: Do TAG members have any comments on the updated text relating to foreign exchange gains and losses (AG24.34-AG24.37 in Annex A)?

Implementation guidance and illustrative examples

- 2.16 One member noted that some of the sensitive information text in the implementation guidance was still focused only on the risk of physical harm while the preceding paragraph and TAG discussion were broader and also included disruption to operations. The text has been broadened to include disruption to operations.
- 2.17 A number of minor changes have also been made to the illustrative examples. In particular Example 3, which was based on a scenario related to zoonotic diseases, has been changed due to potential sensitivities. This is now based on childhood infectious diseases.

Question 4: Do TAG members have any comments on the revisions made to the text related to sensitive information (IG24.31-IG24.32 in Annex A) or the change made to the illustrative examples?

3. Areas where further TAG member input is requested

- 3.1 There are two areas that were highlighted in comments from members where further TAG member input is requested.
- 3.2 The first relates to where a binding grant arrangement does not exist and there is also no legal or constructive obligation to transfer resources. The guidance as drafted notes that the grant-providing NPO will recognise an expense when it no longer controls the resources, which will generally be when the resources are transferred to the grant recipient. The draft text said that a grant expense shall be measured at the carrying amount of the previously controlled resources. One member questioned whether this should be measured at fair value.
- 3.3 The proposal that the grant expense shall be measured at the carrying amount of the previously controlled resources matches the requirements of IPSAS 48 *Transfer Expenses* which notes that: “When an entity recognises an expense at the time it ceases to control the resources, the entity shall measure the expense at the carrying amount of the transferred resource.” Depending on the resource that is being transferred and the accounting policy choices made by an entity, this might be at fair value but is also might not, e.g. if an asset to be transferred was being held at historical cost.
- 3.4 This proposal has been consistent through the development of the guidance for expenses on grant and donations, although has not been previously raised explicitly in TAG discussions.

Question 5: Do TAG members support the existing measurement requirements for these grant expenses?

- 3.5 The second area relates to sensitive information. One member noted that the TAG hadn't discussed if information that could cause reputational harm may be sensitive. Reputational harm could, for example, impair the NPO's future ability to fundraise.
- 3.6 Extending the sensitive information disclosure exemption to include reputational harm could be a significant extension that may limit transparency. An NPO could for example use such an exemption to not disclose information on legitimate areas of concern such as its failure to comply with regulations regarding the use of donated funds.



Question 6: What are TAG members views on the potential to extend the scope of the sensitive information exemption to include reputational harm?

Next steps

- 4.1 Based on the comments from TAG members, the draft text will be finalised for discussion at the next TAG meeting ahead of publication as part of Exposure Draft 2.

May 2023

Annex A: Excerpts of guidance where there have been significant changes to text

Amended existing text in core Guidance

Text has been revised for the introduction of the concepts and terminology of funding arrangements and limitations, the separation of recognition and measurement principles, and overall simplification.

Grant expenses from transactions without binding grant arrangements

Recognition and measurement when there are no limitations

G24.7 For transactions when there are no limitations, a grant-providing NPO shall recognise a grant expense when it ceases to control the resources in the transaction. This will usually be when it transfers the resources to the grant-recipient. A grant expense shall also be recognised when:

- (a) there is an obligation established by legal or similar means (hereafter a legal obligation) to transfer resources that results in the recognition of a liability. The subsequent transfer of resources settles the recognised liability; or
- (b) there is a constructive obligation to transfer resources that results in the recognition of a provision in accordance with paragraph G21.4 of Section 21 *Provisions and Contingencies*. The subsequent transfer of resources settles the recognised provision.

G24.8 A grant-providing NPO shall measure grant expenses at the carrying amount of the previously controlled resources when the resources are transferred, unless a liability or constructive obligation has been recognised. Where a liability or constructive obligation has been recognised, grant expenses shall be initially and subsequently measured:

- (a) at the amount of the resources that the grant-providing NPO is obliged to transfer to the grant recipient to settle the liability; or
- (b) in accordance with paragraphs G21.8-G21.12 when a provision has been recognised.

Recognition and measurement when there are funding arrangements

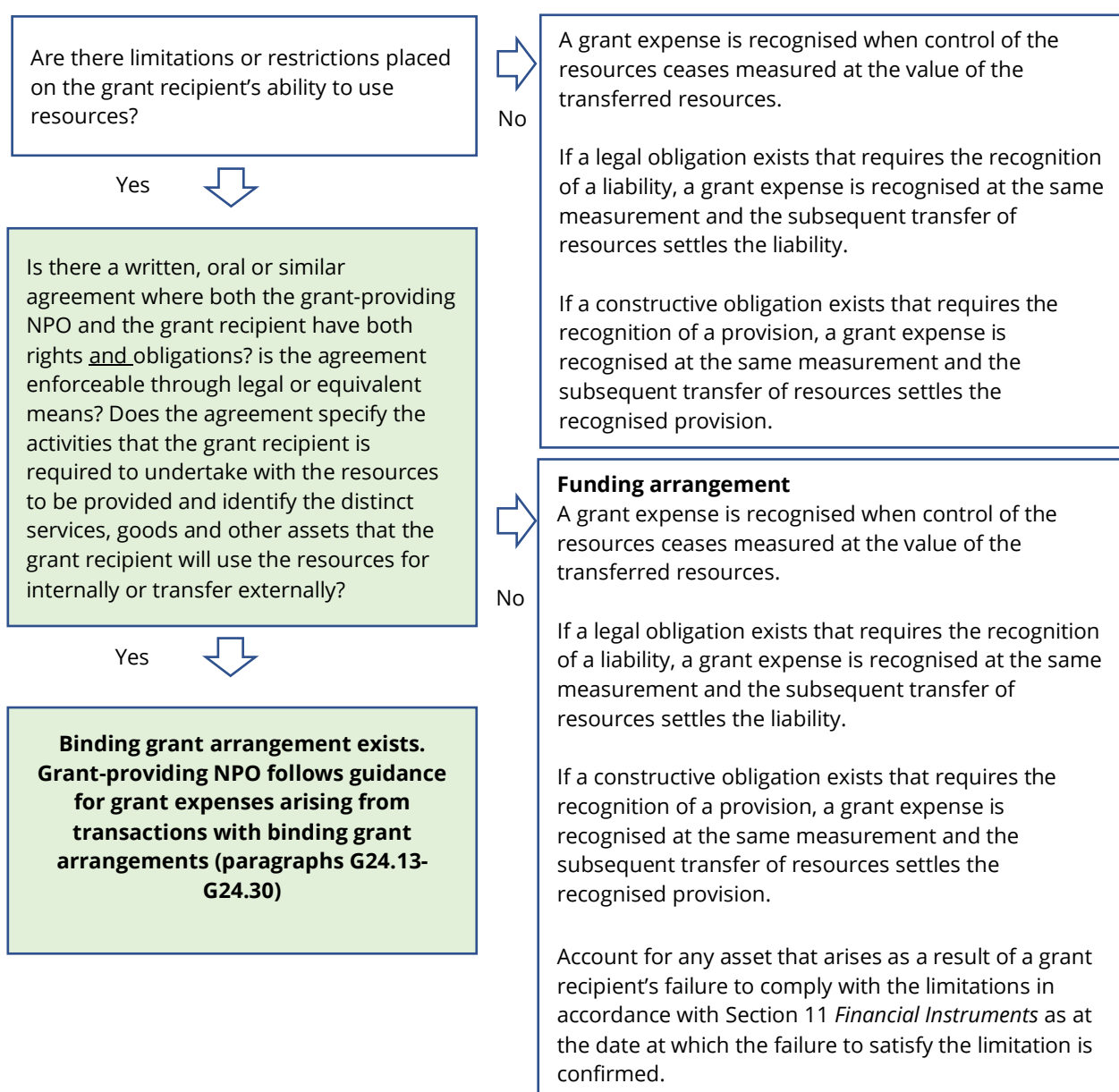
G24.9 Transactions where there are funding arrangements, do not create a present obligation for the grant recipient when the resources are transferred.

G24.10 A grant-providing NPO shall initially account for grant expenses from funding arrangements by applying the same requirements as for grant expenses for transactions without limitations (see paragraph G24.7-G24.8).

G24.11 Limitations may give rise to an obligation at a future date if the grant recipient does not satisfy the terms of a funding arrangement with the grant-providing NPO. For example, if the grant recipient fails to use the grant within the timeframe specified in the funding arrangement, an obligation to refund all or part of the grant may arise at that point. No asset will be recognised by a grant-providing NPO until there is a present obligation for the grant recipient.

G24.12 A grant-providing NPO shall account for any asset that arises as a result of a grant recipient's failure to comply with a limitation in accordance with Section 11 *Financial Instruments* as at the date at which the failure to meet the limitation is confirmed.

Figure 24.1 The recognition and measurement of grant expenses from transactions without binding grant arrangements



New text in Application Guidance

This new text provides guidance where services, goods or other assets are directly received by the grant-providing NPO, but these are not of equivalent value

Grant expenses and procurement of services, goods and other assets

- AG24.2 A grant expense is recognised when a grant-providing NPO does not directly receive any cash, service, good or other asset in return from a grant recipient as a result of the transfer of cash, service, good or other asset that it has, or is obliged, to make. Where a grant-providing NPO does directly receive cash, service, good or other asset in return from a grant recipient for the transfer of resources, then this may indicate a procurement relationship and a purchase.
- AG24.3 There may be situations where the services, goods, or other assets directly received by the grant-providing NPO are not of equivalent value to the resources it transferred to the grant recipient. This could range from a nominal amount to an amount that is only just below equivalent value. Where this is the case the grant-providing NPO must determine how best to reflect the substance of the transaction. Where material this may involve recognising part of the transaction as a grant expense and part as the procurement of services, goods or other assets.

Updated guidance on foreign exchange gains or losses in Application Guidance

This text has been revised to match the latest proposals in Section 30 *Foreign Currency Translations* and to ensure consistent use of terminology.

Foreign exchange gains and losses

- AG24.34 Depending on the terms of an arrangement, a grant-providing NPO may be required to recognise assets or liabilities that need to be denominated in a foreign currency..
- AG24.35 Non-monetary items, such as grant prepayments related to unmet compliance obligations, that are denominated in a foreign currency shall be measured in the reporting currency at their historical cost using the exchange rate at the date of the transaction in accordance with paragraphs G30.9-G30.10 of Section 30 *Foreign Currency Translations*.
- AG24.36 Monetary items, such as grant payables, denominated in a foreign currency shall be restated into the reporting currency using the applicable exchange rates as at the reporting date in accordance with G30.10.

AG24.37 Any exchange differences arising on the settlement of assets or liabilities denominated in a foreign currency during the reporting period or on their restatement at the reporting date should be recognised in accordance with paragraph G30.11-G30.13.

Updated guidance on sensitive information in Implementation Guidance

This text has been updated to ensure that text on disruption of operations is consistent across the paragraphs. New text in red.

Sensitive information

What is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission?

- IG24.31 Grant-providing NPOs are permitted to not disclose detailed information about grant expenses in the general purpose financial reports where the information is sensitive or could prejudice the ability of the grant-providing NPO, or grant recipient to deliver its mission or purpose. Given the diversity of activities undertaken by NPOs, it is not possible to provide a definition or exhaustive list of the activities that could give rise to such information. This exemption is intended to include situations where there is a risk, including **but not limited to** physical harm, to a grant-providing NPO's staff, its volunteers or the public and other entities and individuals who engage with the grant-providing NPO. It would also apply where disclosure would provoke significant ongoing disruption to the grant-providing NPOs or partner entity's operating activities in a locality.
- IG24.32 Permission to not disclose information must not be used by grant-providing NPOs as a way of hiding poor governance, poor performance or financial problems that may have arisen with aspects of its operations. It should be reserved solely for situations where disclosure would **significantly disrupt operations and/or** jeopardise the safety and security of staff, volunteers, the public that benefit from the services and goods provided by the grant-providing NPO, and other entities and individuals that engage with the grant-providing NPO.