



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED10-0X

28 February 2023 – Online

Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals

Summary	This paper provides TAG members with an overview of the changes made to the INPAG Section 24a authoritative guidance and a first draft of the accompanying implementation guidance, illustrative examples, and basis for conclusions.
Purpose/Objective of the paper	To allow TAG members to further consider the application of the conceptual basis of the draft IPSASB standard on Transfer Expenses to the proposed INPAG guidance. The paper also provides a complete draft of INPAG Section 24a <i>Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals</i> for comment.
Other supporting items	None
Prepared by	Philip Trotter
Actions for this meeting	Comment and advise on: <ul style="list-style-type: none">(i) the changes made to the Section title and the key terms defined and conceptual clarifications made(ii) the changes made to the recognition, measurement and disclosure requirements in the authoritative guidance(iii) the proposed approach taken to the implementation guidance, illustrative examples and basis for conclusions(iv) any additional NPO-specific issues areas that the guidance needs to cover

Technical Advisory Group

Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals

1. Background

- 1.1 At TAG ED 09, TAG members were provided with an overview of the approach taken to the development of the proposed guidance for grant expenses and an initial draft of the INPAG Section 24A *Grant Expenses* authoritative guidance.
- 1.2 TAG members were requested to comment and advise on:
 - (i) the key terms that had been defined for Section 24A
 - (ii) the proposed approach take to the recognition and measurement of grant expenses in the authoritative guidance
 - (iii) the proposed approach taken to the disclosure of grant expenses in the authoritative guidance
 - (iv) any additional NPO-specific issues and/or areas that the authoritative guidance needed to cover; and
 - (v) the title of the Section.
- 1.3 A number of comments were provided by TAG members. These included:
 - Make clearer that the Section is about grant-making and not costs associated with the use of grants by an NPO;
 - Ensure a balance between using terms that are already utilised in international frameworks while also being understandable to those less familiar with these frameworks;
 - Provide additional guidance on enforceability outside of legal means;
 - Provide clarity on compliance obligations, including how these relate to more common terms such as restrictions and performance requirements; and

- Reconsider the disclosure requirements for grant prepayment assets and non-monetary grant payment liabilities.

2. Significant changes made to the authoritative guidance

- 2.1 As a result of the comments provided by TAG members, and taking into consideration the views of the PAG that it was not possible to fully reflect in the previous draft provided to the TAG, a number of significant changes have been made to the authoritative guidance. A revised draft is included in Annex A.

Title of Section

- 2.2 The title of the Section has been changed from 'Grant expenses' to 'Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals'. This change has been made to clarify that the expenditure relates to transfers to other entities and individuals by the NPO, and that this includes donations and other similar transfers as well as grants.

Terms used and conceptual clarifications

- 2.3 A number of terms have been changed as a result of comments from TAG and PAG members and there has also been some conceptual clarifications.
- 2.4 **Definition of grant expense** – PAG members considered that a definition of a grant expense that indicates an expense arises when a grant-providing NPO provides assistance was incomplete. This is because an expense can also arise when the grant-providing NPO is required to recognise a liability prior to the transfer of resources. The definition of a grant expense has therefore been amended to:

“an expense arising from a transaction in which a grant-providing NPO provides, or is obliged to provide, assistance to a grant recipient (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return.”

- 2.5 **'Grant satisfaction right' and been replaced with 'grant fulfilment right'** – TAG and PAG members noted that the use of the term 'fulfilment' would be more understandable than 'satisfaction'. Fulfilment is used elsewhere in INPAG in relation to current value measures of liabilities, with fulfilment value being the present value of the cash, or other economic resources, that an NPO expects to be obliged to transfer as it fulfils a liability. The Secretariat

considers the use of the term here to be sufficiently different that this is unlikely to cause confusion by users of INPAG.

- 2.6 **‘Extinguished’ replaced with ‘met’** – TAG and PAG members considered this phrase overly complex and noted that it would not be understandable to many INPAG users. The phrase arises from legal usage where it relates to the destruction of a right or contract. As a result of TAG and PAG comments, it has been replaced in the INPAG text with the simpler term ‘met’.
- 2.7 **General grant fulfilment rights and general obligations, specific grant fulfilment rights and specific compliance obligations** – grant fulfilment rights and compliance obligations have been redefined as general grant fulfilment rights and general obligations, and specific grant fulfilment rights and specific compliance obligations. In addition, further explanatory text has been included related to these terms in the core guidance.
- 2.8 A general grant fulfilment right and general obligation is one that relates to the use of the transferred resources by the grant recipient in accordance with its overall purpose rather than to support specific programmes, projects or activities. A specific grant fulfilment right and specific compliance obligation is one that relates to the use of the transferred resources by the grant recipient for a specific programme, project and activities and not just for its general purpose.
- 2.9 This change has been made because under the draft IPSAS Standard, a compliance obligation is a grant recipient’s promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary. Where there is a general obligation, the services, goods or other assets to be used internally or transferred externally may not individually be distinct services, goods or other assets but collectively are likely to be incremental to services, goods or other assets that would have been available to the grant recipient for internal use or external transfer without the resource transfer from the grant-providing NPO.
- 2.10 Defining this as a general obligation in a binding grant arrangement as opposed to just a compliance obligation ensures that the distinction is clear. It also supports the recognition and measurement model which highlights that in the case of a general grant fulfilment right and general obligation the NPO will need to consider carefully whether there are conditions attached to the general obligation that enable it to realistically avoid the transfer of resources.



Question 1: Do TAG members have any comments on the changes made to:

- (i) the title of the Section?
- (ii) Terminology and conceptual clarifications including the changes made and additional explanatory text for general and specific grant fulfilment rights, general obligations and specific compliance obligations?

Structure of the core text in the authoritative guidance

- 2.11 The core text in the authoritative guidance has been restructured to support ease of use. Previously the core text provided an indication of scope, the identification of the grant expense transaction based on the recognition of an asset by the grant-providing NPO, an explanation of binding grant arrangements and enforceability, and then recognition and measurement principles for grant expenses arising from transactions without binding grant arrangement and grant expenses arising from transactions with binding grant arrangements.
- 2.12 TAG members noted that the discussion of the recognition of an asset before the main recognition and measurement principles was confusing in the text. In particular a number indicated that they weren't sure if it was the grant-provider or the grant recipient that was recognising the asset. As the recognition of an asset by the grant-providing NPO in the form of a grant prepayment asset is included in the recognition and measurement principles for grant expenses from transactions with binding grant arrangements, this text has been removed.
- 2.13 The text that related to grant expenses arising from transactions with binding grant arrangements has been restructured. Previously all possible scenarios relating to general and specific grant fulfilment rights and compliance obligations were included under one heading. To improve understandability and ease of use of this Section, principles applicable to all binding grant arrangements are noted followed by recognition and measurement principles for three possible scenarios. These are where there is:
- only one general grant fulfilment right and general obligation;
 - only one specific grant fulfilment right and specific compliance obligation; and

- a number of distinct grant fulfilment rights, general obligations and specific compliance obligations.

2.14 The Secretariat considers that restructuring the recognition and measurement principles and the associated Figure in this way will enable users of INPAG to more easily focus on the key factors that determine how to account for grant expenses.

Question 2: Do TAG members have any comments on the changes made to the structure of the core text to aid ease of use?

Change to proposal to require disclosure of grant prepayment assets and non-monetary grant payment liabilities in accordance with an amended Section 11 Financial Instruments

2.15 The Secretariat had previously proposed that grant prepayment assets and non-monetary grant payment liabilities would be disclosed in accordance with an amended Section 11 *Financial Instruments*. This was not supported by the TAG. Further consideration has been given to the outcome that was being sought and as a consequence what additional guidance is needed and where it should be located. The proposal has been changed so that disclosure requirements for grant prepayment assets and non-monetary grant payment liability are now included in the core text of Section 24A *Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals* without any amendment to Section 11 *Financial Instruments*.

Addition of a sensitive information exemption in disclosures

- 2.16 In comments on the draft authoritative guidance, a TAG member noted the sensitive information disclosure exemption included in Section 35 *Narrative Reporting*. This was raised with respect to the requirement to disclose the name and objects of any entity where the grant-providing NPO is acting as an agent.
- 2.17 Having considered this comment, the Secretariat agrees that a similar disclosure exemption is required in Section 24a, but considers that it will need to be broader than just principal-agent considerations and encompass all grant expenses disclosures.
- 2.18 As such a sensitive information disclosure exemption has been included in the authoritative guidance. This states that “A grant-providing NPO shall not

disclose detailed information about grant expenses that is sensitive. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets, because the information is sensitive and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose.”

- 2.19 Examples of detailed information are also included in the core text to provide users with an understanding of the kinds of information this is expected to encompass.
- 2.20 The text of this exemption is broader than that included in Section 35 *Narrative Reporting* as it expands the scope of the safety and wellbeing of individuals working/volunteering to include those working **with** the grant-providing NPO and not just **for** the grant-providing NPO. A similar broadening of the text included in Section 35 *Narrative Reporting* may also be necessary.

Question 3: Do TAG members have any comments on the changes made to disclosure requirements with respect to:

- (i) the inclusion of grant prepayment assets and non-monetary grant payment liability disclosure requirements in the core text of Section 24A *Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals* rather than amending Section 11 *Financial Instruments*?
- (ii) the addition of a sensitive information exemption?

Additional application guidance text on enforceability in a binding grant arrangement

- 2.21 TAG and PAG members requested additional guidance on enforceability in a binding grant arrangement in a number of areas. These have been added to the application guidance.
- 2.22 The first relates to alternative processes that have equivalent effect to legal means. Text has been included to provide the example that in some jurisdictions public sector entities are not permitted to contract in their own name but where this is the case alternative processes with equivalent effect

to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable. Although related to public sector entities, as many NPOs will be in binding grant arrangements with public sector entities this is valid in the NPO context.

- 2.23 The second relates to whether the ability to reduce or withhold future funding is an enforcement mechanism. The additional application guidance clarifies that while a grant recipient may feel compelled to deliver on obligations in an arrangement because of the risk that it might not receive future funding from the grant-providing NPO as part of other arrangements, this is usually not considered a valid enforcement mechanism for a binding grant arrangement. This is because there is no present obligation on the grant-providing NPO to provide such funding.
- 2.24 The third relates to general statements of intent and oral agreements. The additional application guidance notes that a general statement of intent by a grant-providing NPO is not usually in and of itself an enforceable arrangement but that it could give rise to a constructive obligation. An oral agreement, however, may be sufficient to create a binding grant arrangement that is enforceable, particularly in those jurisdictions where oral agreements can be legally binding.
- 2.25 The final area of additional text on enforceability relates to customary practices. Here the additional application guidance provides detail on how legitimate expectations may arise from customary practice, but to be a binding grant arrangement such legitimate expectations would need to be capable of being upheld by either a legal or equivalent mechanism. This will necessarily vary by jurisdiction depending on the legal or other mechanisms in place.

Additional application guidance text on grant recipient obligations

- 2.26 TAG members questioned the application guidance example of match-funding provided in this area. The example has been modified to indicate that the grant recipient has notified the grant-providing NPO that it is in advanced stages with another entity to secure the match funding which means that it is highly likely that the transfer of resources will occur. The overall conceptual basis, however, that where there are rights and obligations that are outside of the control of the grant-providing NPO a provision may be required if the transfer of resources is deemed probable remains.

Additional application guidance text on foreign exchange gains and losses

- 2.27 Application guidance in this area had not been included while further work was being undertaken on the overall approach to foreign exchange translations. Application guidance has now been provided requiring that foreign currency grant prepayment assets and grant payment liabilities should be restated by the grant-providing NPO into the reporting currency using the applicable exchange rates as at the reporting date. Any exchange differences arising on the settlement of grant prepayment assets or grant prepayment liabilities during the reporting period or on their restatement at the reporting date should be reported within the relevant income or expenses line on the grant-providing NPO's Statement of Income and Expenses.

Question 4: Do TAG members have any comments on the additional application guidance that has been included in the authoritative guidance?

3. Implementation guidance and illustrative examples

- 3.1 Implementation guidance (See Annex B) has been developed that covers four key areas. These are:

Part A – Identifying the grant expenses transaction

Part B – Grant expenses from transactions without binding grant arrangements

Part C – Grant expenses from transactions with binding grant arrangements

Part D – Sensitive information

Part A – Identifying the grant expenses transaction

- 3.2 The implementation guidance in this area is focused on:
- (i) identifying whether a binding grant arrangement exists; and
 - (ii) enforceability in binding grant arrangements.

It reinforces the importance of binding grant arrangements for the recognition and measurement of grant expenses and the requirement for an NPO to take into consideration all relevant facts and circumstances so as to

apply the appropriate accounting principles to reflect the economic substance of the transaction.

- 3.3 With respect to enforceability, it provides guidance on the factors an NPO should consider when assessing enforceability. It also highlights the accounting implications of a change in internal or external factors that affect the enforceability of a binding grant arrangement.

Part B – Grant expenses from transactions without binding grant arrangements

- 3.4 The implementation guidance in this area is focused on:
- (i) how a constructive obligation is recognised in transactions without binding grant arrangements; and
 - (ii) whether it is possible for the transfer of resources in a transaction without a binding grant arrangement to result in the recognition of a grant prepayment asset.
- 3.5 The guidance notes that general statements may give rise to a constructive obligation in accordance with G21.4 of Section 21 *Provisions and Contingencies* that would require the recognition of a grant payment provision and a grant expense.
- 3.6 It also notes that, as a grant prepayment asset is an asset that arises because binding grant arrangements include grant fulfilment rights, it is not possible to recognise a grant prepayment asset without a binding grant arrangement.

Part C – Grant expenses from transactions with binding grant arrangements

- 3.7 The implementation guidance in this area covers three topics. These are:
- (i) identifying grant fulfilment rights and compliance obligations and determining when they have been met;
 - (ii) allocating the grant payment consideration to the grant fulfilment right; and
 - (iii) accounting for multi-year arrangements.
- 3.8 With respect to identifying grant fulfilment rights and compliance obligations and determining when they have been met, guidance is provided on determining distinct rights, whether these distinct rights are general or specific, and identifying when they have been met including when met over time.

- 3.9 This includes factors to be considered when assessing whether a right is distinct, indications that a grant fulfilment right and compliance obligation is specific such as a greater degree of monitoring to determine if the obligation has been met, and common considerations which could inform when a grant fulfilment right has been partially met.
- 3.10 In allocating the grant payment consideration to the grant fulfilment right, the focus of the implementation guidance is on suitable methods for estimating the standalone consideration of a grant fulfilment right.
- 3.11 Guidance on accounting for multi-year arrangements stresses the need for grant-providing NPOs to consider the recognition of grant expenses independently from the timing of when resources are transferred.

Part D – Sensitive information

- 3.12 The final part of the implementation guidance is focussed on sensitive information. This follows a similar format to that in Section 35 *Narrative Reporting*, with guidance for NPOs on what is meant by sensitive information or information that could prejudice the ability of the NPO to deliver its mission.

Question 5: Do TAG members have any comments on the implementation guidance text that has been developed?

Question 6: Are there any further areas that TAG members consider should be included in the implementation guidance?

Illustrative examples

- 3.13 In addition to the implementation guidance, five illustrative examples have also been developed. They illustrate the application of the principles for accounting for grant expenses, showing NPOs how they could consider features of the model for recognising grant expenses - such as determining whether or not a binding grant arrangement exists and if rights and obligations are general or specific in nature. The need for an individual NPO to use their own professional judgement to apply the guidance to their own circumstances and transactions is also highlighted.

3.14 The five illustrative examples cover the following concepts and principles:

Example 1 – An NPO has a constructive obligation outside of a binding grant arrangement

Example 2 – An NPO is party to a binding grant arrangement with a single general grant fulfilment right and general obligation

Example 3 – An NPO is party to a binding grant arrangement with multiple specific grant fulfilment rights and compliance obligations and transfers cash and non-cash resources

Example 4 – An NPO is party to a binding grant arrangement with grant payments over multiple years

Example 5 – An NPO is party to a binding grant arrangement with a capital grant

Example 6 – An NPO is party to a grant arrangement with a 'termination for convenience' clause

Question 7: Do TAG members have any comments on the illustrative examples that have been developed?

Question 8: Are there any further examples that TAG members consider it necessary to include?

4. Basis for Conclusions

4.1 The Basis for Conclusions (See Annex C) provides users of INPAG with an overview of the deliberations that have led to the guidance included in Section 24A *Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals*.

4.2 It highlights how the issues identified and potential approaches proposed in the Consultation Paper have been refined and have led to an approach based on an adaptation of the draft IPSAS Standard for transfer expenses.

4.3 Significant issues covered in the Basis for Conclusions include:

- The definition of grant expenses and the use of the binding arrangement conceptual model;

- Recognition and measurement principles where there are no binding grant arrangements;
- Recognition and measurement principles where there are binding grant arrangements – including the distinction between general obligations and specific compliance obligations, discussion on transfers of payments of grants over more than one financial year, variable consideration, capital grants, and rights and obligations that are outside of the control of the grant-providing NPO;
- Grant prepayment assets and grant payment liabilities;
- Principal agent considerations; and
- Disclosures

Question 9: Do TAG members consider that the basis for conclusions text is an accurate description of the deliberations that have taken place to date in developing the grant expenses guidance?

Question 10: Are there any further areas that TAG members consider should be included?

5. Next Steps

- 5.1 Based on the comments received from TAG members to this updated draft of the complete Section 24A *Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals*, Secretariat will produce a final draft for comment.

February 2023

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Annex A

Section 24A – Expenditure on grants, donations and similar transfers made by NPOs to other entities and individuals

Scope

G24A.1 This section specifies the accounting for expenditure on grants, donations and similar transfers (here after called **grant expenses**) by **grant-providing NPOs**. It does not relate to the accounting by an NPO for the receipt of grants, donations and similar transfers that it has received from another entity. The accounting for the receipt of grant and similar income by an NPO is specified in Section 23 *Revenue*.

G24A.2 A grant expense is an expense arising from a transaction in which a grant-providing NPO provides, or is obliged to provide, assistance to a **grant recipient** (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return.

Binding grant arrangements and enforceability

G24A.3 A **binding grant arrangement** is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement. This could be through a written grant agreement, but could also be through an oral agreement or implied by a grant-providing NPO's or a sector's customary practices. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement.

G24A.4 Grant expenses may arise from transactions:

- (i) without binding grant arrangements;
- (ii) and from binding grant arrangements that have:
 - (a) only one **general grant fulfilment right** and one **general obligation**;
 - (b) only one **specific grant fulfilment right** and one **specific compliance obligation**; and
 - (c) a number of distinct grant fulfilment rights, general obligations and specific compliance obligations.



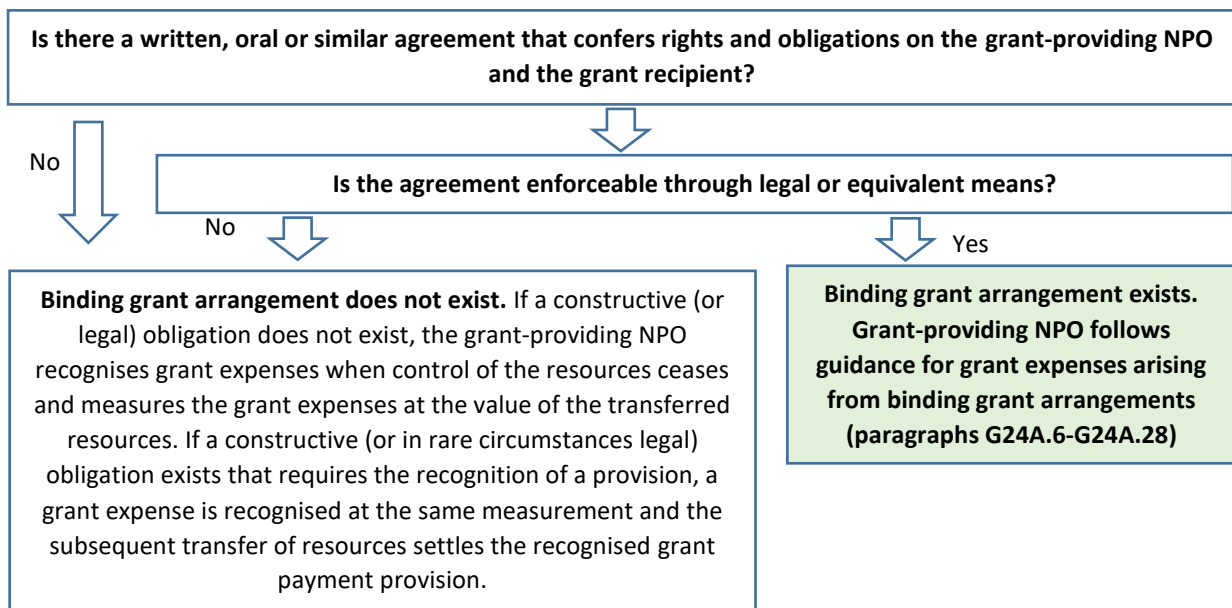
Grant expenses from transactions without binding grant arrangements

Recognition and measurement

G24A.5 Where there is no binding grant arrangement, a grant-providing NPO shall recognise and measure grant expenses as follows:

- (a) when there is a constructive or in rare circumstances legal 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 grant payment provision shall be initially and subsequently measured in accordance with paragraphs G21.8-G21.12. In such cases the recognition of the grant payment provision results in the recognition of the grant expense at the same measurement value. The subsequent transfer of resources settles the recognised grant payment provision; or
- (b) when a constructive (or legal) obligation to transfer resources does not exist, a grant expense shall be recognised when the grant-providing NPO ceases to control the resources in the transaction. The grant-providing NPO shall measure the grant expense at the carrying amount of the previously controlled resources as at the date that it transfers the resources to the grant recipient.

Figure 24A.1 The recognition and measurement of grant expenses from transactions with no binding grant arrangement



Grant expenses from transactions with binding grant arrangements

Recognition and measurement

- G24A.6 Where there is a binding grant arrangement, a grant-providing NPO shall consider its rights in the binding grant arrangement. The grant-providing NPO should identify each distinct grant fulfilment right (or series of grant fulfilment rights that have substantially similar characteristics) that create general obligations or specific compliance obligations for the grant recipient.
- G24A.7 Binding grant arrangements may have one general grant fulfilment right and one general obligation, one specific grant fulfilment right and one specific compliance obligation, or a number of distinct grant fulfilment rights, general obligations and specific compliance obligations.
- G24A.8 The grant-providing NPO will need to consider the terms of the binding grant arrangement to determine the **grant payment consideration** that it is obliged to pay the grant recipient for meeting each distinct grant fulfilment right.
- G24A.9 Binding grant arrangements will be wholly unsatisfied if the grant-providing NPO has not yet paid, and is not yet obligated to pay consideration to the grant recipient and the grant recipient has not yet met any of its stated general obligations or specific compliance obligations in the binding grant arrangement. This is similar to an executory contract in which neither party has fulfilled any of its obligations. If a binding grant arrangement is wholly unsatisfied the grant-providing NPO does not recognise any expense, asset or liability associated with the binding grant arrangement. Only as one or both parties begin to fulfil their obligations will the grant-providing NPO begin to recognise transactions associated with the binding grant arrangement.

(a) Binding grant arrangements that have only one general grant fulfilment right and one general obligation

- G24A.10 The substance of the binding grant arrangement may mean that effectively there is only one general grant fulfilment right and one general obligation.
- G24A.11 A general grant fulfilment right and general obligation is one where the grant recipient is required to use the resources to be transferred by the grant-providing NPO to undertake a broad range of activities that support its overall purpose rather than relating to specific programmes, projects or activities. As the broad range of activities support the overall purpose of the grant recipient, they are likely to comprise a wide number of services, goods or other assets for internal use or external transfer. Unlike with specific compliance obligations, under the terms of the binding grant arrangement these services, goods or other assets may not individually be distinct.

G24A.12 Where there is a general grant fulfilment right and general obligation, the grant-providing NPO should consider carefully whether there are conditions attached to the general obligation that enable it to realistically avoid the transfer of resources.

G24A.13 If the grant-providing NPO concludes that realistically it cannot avoid the transfer of resources, the grant-providing NPO shall recognise a **grant payment liability** and a grant expense measured at the amount of the grant payment consideration.

G24A.14 If the grant-providing NPO concludes that there are conditions attached to the general obligation that enable it to realistically avoid the transfer of resources it will follow the guidance for binding grant arrangements with one specific grant fulfilment right and one specific compliance obligation in paragraphs G24A.17-G24A.20. This could happen for example in a binding grant arrangement where a grant-providing NPO agrees to reimburse a grant recipient's administrative costs provided these have been directed to its overall purpose and not to other unrelated activities. If a substantive review is undertaken on a regular basis prior to the transfer of resources that examines how the grant recipient's administrative costs have been directed, and this gives the grant-providing NPO the right to withhold the transfer of resources or terminate the binding grant arrangement, this should be sufficient to enable the grant-providing NPO to realistically avoid the transfer of resources.

(b) Binding grant arrangements that have only one specific grant fulfilment right and one specific compliance obligation

G24A.15 The substance of the binding grant arrangement may mean that effectively there is only one specific grant fulfilment right and one specific compliance obligation. A specific compliance obligation will usually require the grant recipient to use the resources to be transferred on a specific programme or project rather than to support its overall purpose. In this case the grant recipient will use resources internally for distinct services, goods or other assets and/or transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary. Where there is a specific grant fulfilment right it is likely that the grant-providing NPO can realistically avoid the transfer of resources if the specific compliance obligation is not met.

G24A.16 In those rare circumstances where the grant-providing NPO concludes that it cannot realistically avoid the transfer of resources related to a specific compliance obligation, it shall apply paragraph G24A.13.

G24A.17 Where the grant-providing NPO can realistically avoid the transfer of resources if the specific compliance obligation is not met, the recognition of assets, liabilities, and expenses will commence only when one party to the binding grant arrangement starts to meet the conditions related to their obligations under the arrangement.

G24A.18 A grant expense is recognised by the grant-providing NPO when a grant fulfilment right is met. The grant expense is measured at the amount of the grant payment consideration for the grant fulfilment right that has been met.

G24A.19 If a grant-providing NPO transfers resources in accordance with the binding grant arrangement prior to the grant recipient meeting its specific compliance obligation, the transferred resources are derecognised, and the grant-providing NPO recognises a **grant prepayment asset**. The grant prepayment asset is measured at the total carrying amount of the resources which have been transferred. A grant-providing NPO shall recognise grant expenses when a grant prepayment asset is derecognised because the grant recipient has met its specific compliance obligation to the grant-providing NPO.

G24A.20 Conversely, when a grant recipient meets its specific compliance obligation in the binding grant arrangement prior to the grant-providing NPO transferring resources, this gives rise to a grant payment obligation for the grant-providing NPO, which shall recognise a grant payment liability. The grant-providing NPO measures its grant payment liability and a grant expense at the total carrying amount of the resources which the grant-providing NPO is obligated to transfer to the grant recipient in accordance with the binding grant arrangement. Where the obligation is to transfer cash, this will be a financial liability measured at amortised cost in accordance with paragraph G11.20 of Section 11 *Financial Instruments*.

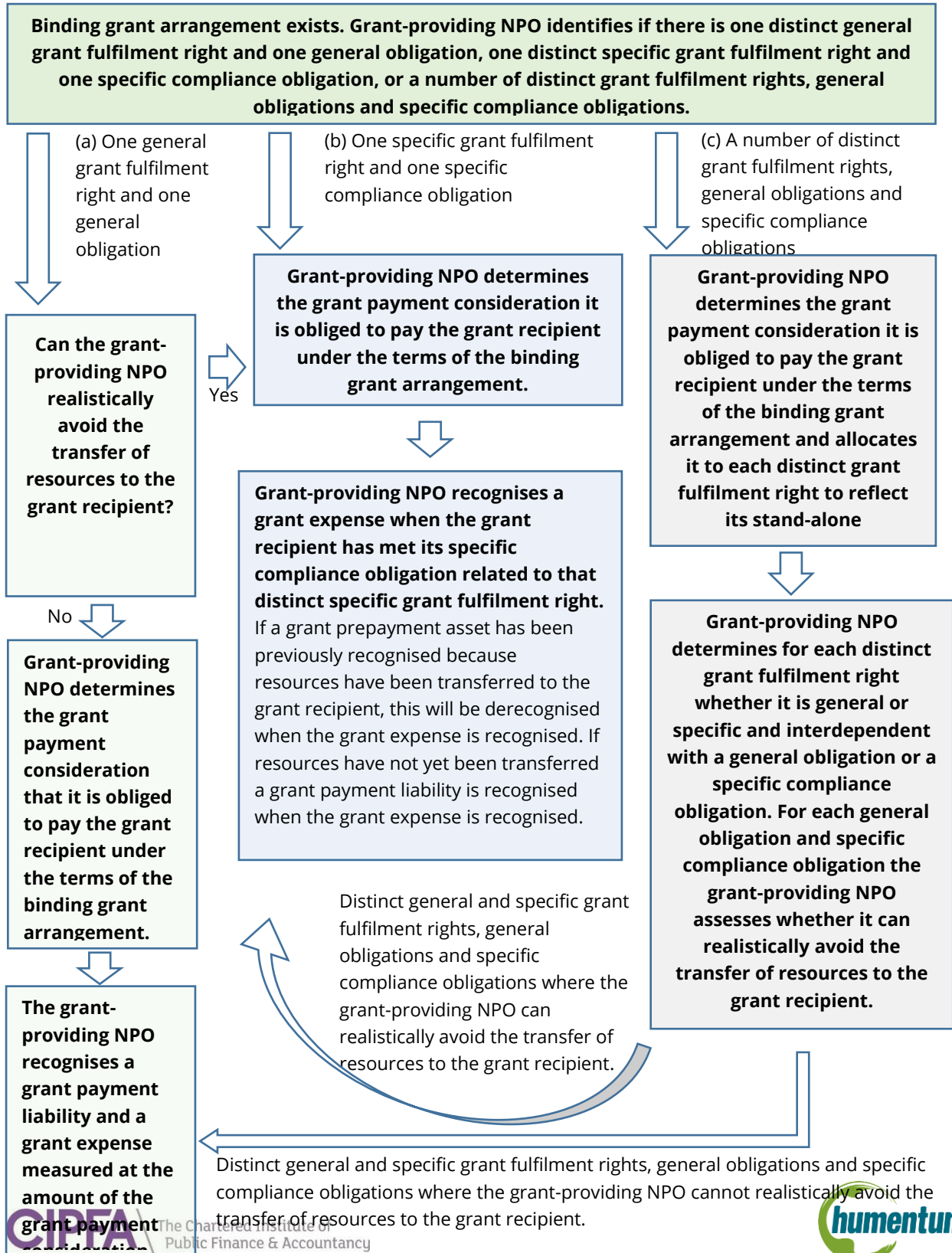
(c) Binding grant arrangements that have a number of distinct grant fulfilment rights, general obligations and specific compliance obligations

G24A.21 When a binding grant arrangement involves multiple distinct grant fulfilment rights, general obligations and specific compliance obligations, the grant payment consideration shall be allocated by the grant-providing NPO to each distinct grant fulfilment right to reflect the stand-alone consideration of each distinct grant fulfilment right.

G24A.22 The grant-providing NPO will need to determine if each distinct grant fulfilment right is general or specific and hence is interdependent with a general obligation or a specific compliance obligation. For general grant fulfilment rights and general obligations the grant-providing NPO shall apply paragraphs G24A.11-G24A.14. For specific grant fulfilment rights and specific compliance obligations, the grant-providing NPO shall apply paragraphs G24A.16-G24A.20.



Figure 24A.2 The recognition and measurement of grant expenses from transactions with binding grant arrangements



Variable consideration

G24A.23 The grant payment consideration that the grant-providing NPO is obliged to pay the grant recipient may vary for items such as incentives, penalties, or other similar items. It may also vary if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event. For example, an additional amount of funds may become payable to the grant recipient if it meets its general obligations or specific compliance obligations in the binding grant arrangement within a specified period. This is known as **variable consideration**.

G24A.24 Variable consideration in a binding grant arrangement may result in a liability of uncertain timing or amount that meets the definition of a provision in Section 21 *Provisions and Contingencies*. If the grant-providing NPO has determined that it is more likely than not that a present obligation exists for the payment of variable consideration, the grant-providing NPO shall estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies*.

Changes to the grant payment consideration and modification to the binding grant arrangement

G24A.25 After the inception of the binding grant arrangement, the grant payment consideration can change for various reasons, including the resolution of uncertain events or other changes in circumstances that change the amount of consideration which a grant-providing NPO is obligated to pay in the binding grant arrangement. Any amounts allocated to a met grant fulfilment right shall be recognised as an additional expense, or as a reduction of an expense, in the period in which the grant payment consideration changes.

G24A.26 A binding grant arrangement may also be modified through a change in the rights and obligations that are approved by the parties to the arrangement. The grant-providing NPO shall determine the accumulated grant expense to be recognised as at the date of the modification by revising its estimates of the grant payment consideration. The grant-providing NPO shall also determine the amount of the grant payment consideration allocated to met and unmet grant fulfilment rights. The difference between the accumulated grant expense determined as at the date of the modification and the accumulated grant expense previously recognised shall be recognised in surplus or deficit as at the date of the modification.

Reclassification and impairment of a grant prepayment asset

G24A.27 After the recognition of a grant prepayment asset, the grant recipient may become unable or unwilling to satisfy its compliance obligations under the binding grant

arrangement. Where the grant-providing NPO has an enforceable and unconditional right to a refund or return of the previously transferred resources arising from the terms of the binding grant arrangement, the grant-providing NPO shall reclassify the grant prepayment asset to a financial asset. Subsequent to its reclassification, the grant-providing NPO shall measure the financial asset in accordance with Section 11 *Financial Instruments*.

G24A.28 If the grant prepayment asset is not reclassified to a financial asset as set out in paragraph G24A.27 because the terms of the binding grant arrangement, the legal system in the jurisdiction, and/or other circumstances do not support the recognition of a financial asset, the grant-providing NPO shall assess the grant prepayment asset for impairment in accordance with Section 27 *Impairment of assets*.

Principal agent considerations

G24A.29 An important question for the recognition and measurement of grant expenses is whether the grant-providing NPO controls the economic resources that are transferred to the grant recipient. A grant-providing NPO controls the economic resources by having the present ability to direct the use of the economic resources and to obtain the economic benefits or service potential that may flow from them. If the grant-providing NPO controls the economic resources, it will be a principal in the transaction and the recognition and measurement requirements of paragraphs G24A.5 to G24A.28 will apply to grant expenses. This is the case even if the grant-providing NPO is subject to a binding grant arrangement with the grant recipient that imposes obligations upon the grant-providing NPO. This is because as a principal the grant-providing NPO will ultimately have discretion over the amounts and timing of the transaction, the identity of the grant recipient, and the conditions under which the transaction is to occur.

G24A.30 Where a grant-providing NPO does not control the economic resources it is likely to be acting as an agent for another entity. This situation may occur, for example, when a grant-providing NPO operates in a jurisdiction where another entity does not. By agreement the grant-providing NPO may administer the other entity's funds on its behalf and transfer the other entity's funds to a grant recipient. As an agent the grant-providing NPO will be acting for the other entity's purpose and objectives, in accordance with the instructions or directions of the other entity, and will have no discretion about the use to which the resources are put.

G24A.31 Where a grant-providing NPO is acting as an agent and is transferring cash or other assets to a grant recipient on behalf of another entity, this is not recognised as a grant expense in accordance with the recognition and measurement requirements of paragraphs G24A.5 to G24A.28. The costs incurred in the administration of the agency arrangement by the grant-providing NPO will be recognised as an expense. Similarly

any assets related to the agency arrangement such as funding provided to the grant-providing NPO by the other entity do not form part of the grant-providing NPO's assets or income. Any income due to the grant-providing NPO for administering the agency arrangement will be recognised in accordance with Section 23 *Revenue*. Any funds that the grant-providing NPO is holding as an agent will be presented and disclosed in accordance with paragraph G24A.43.

Disclosures

G24A.32 A grant-providing NPO shall disclose sufficient information to enable the users of the general purpose financial reports to understand the nature, amount, timing and uncertainty arising from grant expenses. This will include a description of the purpose of the material binding grant arrangements or other arrangements that have led to the recognition of grant expenses, the existence and potential consequences of variable consideration, significant payment terms, and the nature of the resources that have been or will be transferred.

G24A.33 A grant-providing NPO shall not disclose detailed information about grant expenses that is sensitive. A disclosure is sensitive if it would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and other assets and/or could prejudice the ability of the grant-providing NPO or grant recipient to deliver its mission or purpose. Detailed information may include but is not limited to the name of grant recipients, the geographic locations in which they operate, and the third parties to whom they provide services and goods and other assets.

G24A.34 A grant-providing NPO will remain in compliance with the requirements of INPAG where this exception is utilised. When a sensitive information exception is used, the grant-providing NPO should disclose that its note related to grant expenses has been prepared in accordance with the requirement of this paragraph but is not required to provide any information that would have the effect of highlighting the nature of the sensitive information.

G24A.35 A grant-providing NPO shall present information related to grant expenses that does not result in sensitive information. The exception to not disclose sensitive information cannot be used by a grant-providing to avoid disclosures that might identify failures in organisational governance, performance or financial management.

Analysis of grant expenses

G24A.36 A grant-providing NPO shall disclose the amount recognised in the Statement of Income and Expenses as grant expenses, and provide an analysis of grant expenses in accordance with Section 24B *Classification of expenses* [to be provided in ED 3].

Grant expense from revenue classified to funds with restrictions

G24A.37 Where a grant-providing NPO has financed a grant expense with revenue that has been classified to funds with restrictions, the grant expense will be shown as a restricted expense in the Statement of Income and Expenses.

Grant prepayment assets and financial assets

G24A.38 Where a grant-providing NPO has recognised a grant prepayment asset in accordance with paragraph G24A.19, this will be disclosed as a grant prepayment asset in the Statement of Financial Position. As part of this disclosure, the grant-providing NPO will need to include information that enables users to understand significant judgements, and changes in significant judgements, that the grant-providing NPO has made regarding the recognition of grant prepayment assets. The grant-providing NPO will also need to disclose significant risks and uncertainties relating to the realisation of grant prepayment assets.

G24A.39 Where a grant prepayment asset has been reclassified to a financial asset in accordance with paragraph G24A.27, the grant-providing NPO shall provide disclosure in accordance with paragraphs **G11.52 – G11.54** of Section 11 *Financial Instruments*.

Grant payment liabilities and provisions

G24A.40 Where a grant-providing NPO has recognised a grant payment liability in accordance with paragraph G24A.20, this will be disclosed as a grant payment liability in the Statement of Financial Position. If the grant payment liability is an obligation to transfer cash, the disclosure requirements of paragraphs **G11.52 – G11.54** Section 11 *Financial Instruments* for payables are applicable. If not an obligation to transfer cash, the grant-providing NPO will need to provide users with information on the nature of the obligation and the resources that will need to be transferred to satisfy the obligation relevant to the non-cash grant payment liability.

G24A.41 If variable consideration in a binding grant arrangement has resulted in the recognition of a grant payment provision in accordance with paragraph G24A.24, or there is no binding grant arrangement but a grant payment provision is recognised for a constructive (or in rare circumstances legal) obligation in accordance with paragraph

G24A.5, then the disclosure requirements of G21.15 in Section 21 *Provisions and Contingencies* are applicable.

Contingent grant payment liability

G24A.42 A grant-providing NPO shall disclose the existence of commitments to provide grant funding that are not recognised as grant payment liabilities or provisions when it is sufficiently clear that payment is possible but not probable. These grant funding commitments will be disclosed as a contingent grant payment liability in accordance with the requirements of G21.15 of Section 21 *Provisions and Contingencies*.

Principal agent considerations

G24A.43 Where a grant-providing NPO has acted as an agent during the reporting period, it must disclose in a note to the accounts:

- (i) an analysis of funds received and paid by the grant-providing NPO as an agent;
- (ii) details of any balances held as an agent at the reporting date;
- (iii) the name and objects of the entity on whose behalf the balances are held and why the grant-providing NPO is acting as an agent on their behalf;
- (iv) details of any balances outstanding between any participating consortium members for which the grant-providing NPO is administratively responsible;
- (v) where funds have been held as agent for related parties the grant-providing NPO must make the required disclosures for related parties; and
- (vi) details of the arrangements for safe custody and segregation of funds and other assets from the grant-providing NPO's own assets.

Application Guidance – Section 24A – *Expenditure on grants, donations and similar transfers*

Items included under the term grant expenses

AG24A.1 The term grant expenses encompasses any cash, service, good or other asset that is transferred by a grant-providing NPO to a grant recipient without the grant-providing NPO directly receiving any cash, service, good or other asset in return. A grant expense for a grant-providing NPO may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts, and similar transfers of resources.

Principal agent considerations

AG24A.2 A formal agreement between the grant-providing NPO and another entity or entities will usually provide clarity as to whether the grant-providing NPO is acting as a principal or an agent. In the absence of a formal agreement, or in more complex arrangements

such as partnerships, consortia or sub-contractor relationships this may be more difficult to determine.

AG24A.3 A consortium or similar arrangement involves a grant-providing NPO cooperating with other entities. Such arrangements may include:

- formal joint venture arrangements;
- the creation of a formal joint venture entity;
- a grant-providing NPO that is a principal entering into contracting arrangements and then sub-contracting with other parties to deliver parts of the contract;
- a grant-providing NPO acting as an agent for the consortium members by administering contractual arrangements on behalf of all other members.

AG24A.4 A lead NPO acts as agent for members of a consortium by administering contractual arrangements on behalf of all other members such as invoicing and making payments when it does not take over the contractual obligations and rights of other members. The lead NPO is not an agent if it is the principal under the contract and is then subcontracting work to third parties, including other NPOs, in order to satisfy its contractual obligations.

Enforceability in a Binding Grant Arrangement

AG24A.5 To be a binding grant arrangement, the interdependent rights and obligations in a binding arrangement must be enforceable. This means that the grant-providing NPO is able to obligate the grant recipient to complete the agreed obligation or be subject to remedies for not doing so, and the grant recipient is able to obligate the grant-providing NPO to pay the agreed consideration.

AG24A.6 Enforceability can arise from various mechanisms. While these will usually be through legal systems there may be alternative processes that have equivalent effect depending on the parties involved in the binding arrangement and the customary practices in a jurisdiction. For example, in some jurisdictions public sector entities are not permitted to contract in their own name, but alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable. A grant-providing NPO may not therefore be able to enter into a legally enforceable arrangement with a public sector entity that is a grant recipient, but the alternative processes will provide for enforceability of the binding grant arrangement

The ability to reduce or withhold future funding as an enforcement mechanism

- AG24A.7 A key issue for grant-providing NPOs is whether the ability to reduce or withhold future funding from a grant recipient can be considered an enforcement mechanism. This alone is not a valid enforcement mechanism for a binding grant arrangement, because there is no present obligation on the grant-providing NPO to provide future funding.
- AG24A.8 However, if there is interdependency with other binding grant arrangements, a potential reduction in future funding could be a valid enforcement mechanism. For example, if the grant recipient is presently entitled to funding in the future through another binding grant arrangement, and the terms of this other binding grant arrangement specifically allow for a reduction in funding if other binding grant arrangements are breached, then the potential reduction in funding could be a valid enforcement mechanism. This will require the grant-providing NPO to apply judgement based on the facts and circumstances, including any past history of reducing funding where it has had the right to do so.

General statements of intent and oral agreements

- AG24A.9 A general statement of intent by a grant-providing NPO that it may transfer cash, or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. As the declaration is a general statement of intent it will not create a binding grant arrangement between a grant-providing NPO and a grant recipient under which both parties have rights and obligations. It may, however, give rise to a constructive obligation in accordance with G21.4 of Section 21 *Provisions and Contingencies*.
- AG24A.10 This general statement of intent differs from an oral agreement between a grant-providing NPO and grant recipient. These will arise from serious discussions between the parties where an offer has been made by the grant-providing NPO to transfer cash, goods, services or another asset to a grant recipient who has accepted to meet an obligation. Depending on the substance of the agreement, an oral agreement may be sufficient to create a binding grant arrangement that is enforceable, particularly in those jurisdictions where oral agreements can be legally binding.

Customary practices

- AG24A.11 In some circumstances enforceability may also arise from a grant-providing NPO's or a sector's customary practices, although this is more likely to occur with public bodies and within the public sector where in some jurisdictions the law of legitimate expectations has been developed.

AG24A.12 For example, a grant-providing NPO may have a long-established policy and practice of reimbursing healthcare facilities in a region for the costs of training community volunteers in methods it has developed to assist in reducing the transmission of malaria. Even if the terms of the policy do not name any healthcare facility in particular, if this long-established policy and practice has been routinely applied to all healthcare facilities this may give rise to an expectation of consistent treatment.

AG24A.13 In such circumstances, even if no written or oral agreement exists, a healthcare facility in the region that trains community volunteers in methods to assist in reducing the transmission of malaria may legitimately expect to receive similar treatment to other healthcare facilities and receive consideration in return, particularly if it has previously received such funding from the grant-providing NPO. Likewise, in exchange for the consideration the grant-providing NPO could also legitimately expect the grant recipient to train the community volunteers specifically in the methods it has developed. Expectations from customary practices will not, however, on their own be sufficient. To be a binding grant arrangement such legitimate expectations would need to be capable of being upheld by either a legal or equivalent mechanism.

Modifications to a Binding Grant Arrangement

AG24A.14 A modification to a binding grant arrangement may be so significant that it requires the grant-providing NPO to account for the modification as a separate binding arrangement. A grant-providing NPO shall account for a modification to a binding grant arrangement as a separate binding grant arrangement if both of the following conditions are present:

- (a) The scope of the binding grant arrangement increases, providing the grant-providing NPO with one or more additional grant fulfilment rights, because the grant recipient accepts one or more additional general obligations and/or specific compliance obligations, or an increase in one or more existing general obligations and/or specific compliance obligations; and
- (b) The grant payment consideration increases by an amount that is intended to reflect the value of the additional grant fulfilment rights by compensating the grant recipient for the additional or increased general obligations and/or specific compliance obligations assumed.

Issues related to grant fulfilment rights, general obligations and specific compliance obligations in binding grant arrangements

General obligations and specific compliance obligations

AG24A.15 An obligation in a binding grant arrangement may be a general obligation or a specific compliance obligation. A general obligation is one that will usually be related to the overall purpose of the grant recipient. For example, if the grant recipient is an entity that exists to improve educational outcomes in a society, a general obligation may be for the grant recipient to spend cash provided to it on the broad promotion of education. Or if the grant recipient is an individual, a general obligation may be for the individual to spend cash provided to them on improving their family's welfare. As the activities support the overall purpose of the grant recipient, they are likely to comprise a collective set of services, goods or other assets for internal use or external transfer which, under the terms of the binding grant arrangement, may not individually be distinct. Collectively, however, these services, goods or other assets will usually be incremental to the services, goods or other assets that would have been available to the grant recipient for internal use or external transfer without the resource transfer from the grant-providing NPO.

AG24A.16 A specific compliance obligation will move beyond the overall purpose of the grant recipient and focus more specifically on individual programmes, projects and activities. It will involve a promise by the grant recipient to use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary. For example, the entity noted in AG24A.6 may have the specific obligation of supporting a named group of children with their annual school fees. Or the individual noted in AG24A.6 may be required to spend the cash provided to them only on purchasing food products.

AG24A.17 For general obligations in particular, it is important for the grant-providing NPO to consider whether it can realistically avoid the transfer of resources relating to the compliance obligation. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient it should follow the recognition and measurement requirements of G24A.13.

Payment of grants over more than one financial year

AG24A.18 Where a binding grant arrangement is payable over a period of more than one year, a grant payment liability and grant expense must be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the binding grant arrangement to the grant recipient for the obligations it has met.

AG24A.19 Where payments for later years are subject to the grant recipient meeting obligations that have not yet been met (whether specific or general), the grant-providing NPO may under the terms of the binding grant arrangement be able to not transfer resources. In this situation a grant payment liability and grant expense should not be recognised.

AG24A.20 If there are conditions in the binding grant arrangement that remain within the control of the grant-providing NPO and this provides it with the discretion to avoid grant expenditure a liability should not be recognised. For example, a grant-providing NPO may have made a commitment to provide grant funding over a number of years, but future years payments are subject to a review by the grant-providing NPO that gives it the right to terminate the binding grant arrangement. If this is clear within the binding grant arrangement and it is a substantive review with the real possibility of termination, then a constructive liability is unlikely to arise for payments related to periods after the review date.

AG24A.21 Alternatively, if there are no conditions in the binding grant arrangement that enable the grant-providing NPO to realistically avoid the transfer of resources, a grant payment liability and grant expense must be recognised for the full grant payment consideration even if payment will occur over a number of financial years. In such cases the grant payment liability will need to be presented split between those amounts due within one year of the Statement of Financial Position date and those of a long-term nature.

Grant recipient obligations

AG24A.22 Binding grant arrangements may contain rights and obligations that are outside of the control of the grant-providing NPO. For example, a grant-providing NPO may note that a transfer of resources is subject to the grant recipient finding match funding. Where obligations are outside the control of the grant-providing NPO, it should assess whether or not the transfer of resources is probable. For example, if the grant recipient has notified the grant-providing NPO that it is in advanced stages with another entity to secure match funding, this may mean that it is highly likely that the transfer of resources will occur. Where the grant-providing NPO determines that the transfer of resources is probable it should follow the requirements of paragraph G21.4 of Section 21 *Provisions and Contingencies*, with any grant payment provision initially and subsequently measured in accordance with paragraphs G21.8-G21.12.

Performance-related rights and obligations

AG24A.23 Binding grant arrangements may contain performance-related rights and obligations, such as payment being conditional on a specific level of service or varying depending on units of output. Where this results in variable consideration, this can result in a liability of uncertain timing or amount for the grant-providing NPO, with this liability meeting the definition of a provision. This should be initially and subsequently

measured in accordance with paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies*.

Restricted grants

AG24A.24 A binding grant arrangement that restricts a grant to a particular purpose does not on its own create a performance-related right or obligation as the payment is not conditional on a specific level of service or outputs by the grant recipient. A restriction of a grant to a particular purpose will, however, form part of the general obligation or specific compliance obligation the grant recipient must meet.

Capital grants

AG24A.25 A capital grant arises from a binding grant arrangement in which a grant-providing NPO transfers cash or another asset to a grant recipient with a requirement that the grant recipient acquires or constructs a non-financial asset that the grant recipient will then control.

AG24A.26 A grant-providing NPO shall follow the same approach to recognising a grant expense for a binding arrangement involving a capital grant as with any other grant expense. When the grant-providing NPO transfers a resource in accordance with the binding grant arrangement, the transferred assets are derecognised and a grant prepayment asset is recognised. A transfer of cash from the grant-providing NPO to the grant recipient to acquire or construct a non-financial asset would therefore see the grant-providing NPO derecognise the cash and recognise a grant prepayment asset. This grant prepayment asset represents the grant-providing NPO's enforceable right to have the grant recipient satisfy its obligations. This grant prepayment asset is derecognised and a grant expense recognised when the grant fulfilment rights are met in accordance with the terms of the binding grant arrangement. The grant-providing NPO would therefore derecognise the grant prepayment asset and recognise a grant expense as the non-financial asset is constructed or acquired by the grant recipient.

AG24A.27 If the grant recipient constructs the non-financial asset, the grant fulfilment right will be met as the asset is being built, with a grant expense recognised by the grant-providing NPO based on an agreed methodology for the measure of progress made by the grant recipient.

AG24A.28 If the grant recipient acquires or constructs the asset prior to the transfer of resources from the grant-providing NPO, the grant-providing NPO will recognise a grant payment liability and a grant expense for the obligation to transfer resources. This could be for the full amount (if the asset is acquired), or based on the extent of progress towards the construction of the asset. The grant payment liability will be derecognised once the transfer of resources is made from the grant-providing NPO to the grant recipient.

AG24A.29 If after the initial transfer of resources from the grant-providing NPO, the grant recipient is unable or unwilling to acquire or construct the specific non-financial asset, the grant-providing NPO will consider whether it has an enforceable unconditional right to a refund or return of the transferred resources and apply paragraphs G24A.27-G24A.28.

AG24A.30 If the grant-providing NPO has already recognised a grant expense, but the grant recipient subsequently disposes of an acquired asset or constructed asset against the terms of the binding grant arrangement, the grant-providing NPO should again consider whether it has an enforceable unconditional right to a refund of the value of transferred resources. If so it should recognise and measure a financial asset in accordance with Section 11 *Financial Instruments* and revenue in accordance with Section 23 *Revenue*. Note, however, that such a right might indicate an agency relationship where the grant-providing NPO had retained control of the asset and no grant expense should have been initially recognised.

Foreign exchange gains and losses

AG24A.31 Depending on the terms of the binding grant arrangement, a grant-providing NPO may be required to recognise a foreign currency grant prepayment asset or grant payment liability. This will arise when the binding grant arrangement requires the grant-providing NPO to pay the grant recipient in a foreign currency and a grant prepayment asset or grant payment liability is recognised in accordance with paragraphs G24A.16-G24A.17.

AG24A.32 Foreign currency grant prepayment assets and grant payment liabilities should be restated by the grant-providing NPO into the reporting currency using the applicable exchange rates as at the reporting date in accordance with paragraph G30.9 of Section 30 *Foreign Currency Translations*. Any exchange differences arising on the settlement of grant prepayment assets or grant prepayment liabilities during the reporting period or on their restatement at the reporting date should be reported within the relevant income or expenses line on the grant-providing NPO's Statement of Income and Expenses in accordance with paragraph G30.10 of Section 30 *Foreign Currency Translations*.

Funds with restrictions – presentation and disclosure

AG24A.33 Expenses, income, assets, and liabilities recognised by a grant-providing NPO as part of Section 24A *Grant Expenses* may relate to a transaction that has been financed by a resource provider that has restricted the financial resources provided to be expended on that specific purpose or activity. Where this is the case a grant-providing NPO shall

present and disclose these items within funds with restrictions in accordance with the requirements of G4.14 of Section 4 *Statement of Financial Position*, G5.3 of Section 5 *Statement of Income and Expenses* and G6.3-G6.4 of Section 6 *Statement of Changes in Net Assets*.

Terms for the Glossary

Binding grant arrangement - a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement.

Contingent grant payment liability - a contingent liability arising from the possible but not probable fulfilment by a grant recipient of its general obligations or specific compliance obligations in a binding arrangement prior to the grant-providing NPO transferring resources.

General grant fulfilment right - a distinct right in a binding grant arrangement held by a grant-providing NPO to have a grant recipient meet a general obligation.

General obligation - a grant recipient's promise in a binding grant arrangement to either use resources internally or transfer resources externally in support of its overall purpose. Under the terms of the binding grant arrangement these may not individually be distinct services, goods or other assets, but collectively will often be incremental to services, goods or other assets that would have been available to the grant recipient for internal use or external transfer without the resource transfer from the grant-providing NPO.

Grant expense - an expense arising from a transaction in which a grant-providing NPO provides, or is obliged to provide, assistance to a grant recipient (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return.

Grant payment consideration - the amount a grant-providing NPO is obliged to pay a grant recipient for meeting each distinct grant fulfilment right.

Grant payment liability - a liability arising from a grant recipient satisfying its general obligations or specific compliance obligations in a binding grant arrangement prior to a grant-providing NPO transferring resources.

Grant payment provision - a provision arising from the probable fulfilment by a grant recipient of its general obligations or specific compliance obligations in a binding grant arrangement prior to the grant-providing NPO transferring resources.

Grant prepayment asset - an asset arising from a grant-providing NPO transferring resources in accordance with a binding grant arrangement prior to the grant recipient satisfying its general obligations or specific compliance obligations.



Grant-providing NPO – an NPO that transfers cash or a service, good or other asset to a grant recipient without directly receiving any cash, service, good or other asset in return.

Grant recipient – an entity or individual that a grant-providing NPO transfers cash or a service, good or other asset to without directly receiving any cash, service, good or other asset in return.

Specific compliance obligation – a grant recipient's promise in a binding grant arrangement to either use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary.

Specific grant fulfilment right – a distinct right in a binding grant arrangement held by a grant-providing NPO to have a grant recipient meet a specific compliance obligation.

Variable consideration – consideration in a binding grant arrangement that includes a variable amount.

Annex B

Implementation Guidance and examples

Part A - Identifying the Grant Expense Transaction

A1 - Identifying whether a binding grant arrangement exists

Does the way in which an NPO transacts with other entities or individuals impact the accounting?

- IG24A.1 NPOs transact in many different ways. These transactions may involve multiple entities and individuals, different types of rights and obligations and varying degrees of enforceability. The form in which an NPO transacts will determine the overall economic substance of the transaction.
- IG24A.2 Correctly identifying whether or not a grant expense transaction arises from a binding grant arrangement is key to correctly applying this Section. The grant-providing NPO is required to determine what type of arrangement it has entered into by considering the terms of the grant expense transaction and all relevant facts and circumstances so as to apply the appropriate accounting principles to reflect the economic substance of the transaction (see G24A.3 – G24A. 31).

A2 - Enforceability

What should an NPO consider in assessing enforceability?

- IG24A.3 Determining whether an arrangement, and each party's rights and obligations in that arrangement, are enforceable may be complex and requires professional judgment. This assessment is integral to identifying whether an NPO has a binding grant arrangement (enforceable rights and obligations), only enforceable rights, or only enforceable obligations. In cases where an NPO does not have a binding grant arrangement, it may still have an enforceable right or an enforceable obligation which should be accounted for appropriately.
- IG24A.4 In developing a binding grant arrangement, the grant-providing NPO should consider its overall objectives and the risk of its grant fulfilment rights not being met by identifying appropriate general obligations or specific compliance obligations for the grant recipient. This should include its ability to monitor if and when general obligations and specific compliance obligations have been met, and its ability to enforce them. Enforceability may arise from various mechanisms. What is important is that the mechanism(s) provide an NPO with the ability to enforce the terms of the arrangement and hold the parties accountable for meeting their obligations in accordance with the terms of the arrangement.



- IG24A.5 At the inception of the arrangement, an NPO shall use its judgment and objectively assess all relevant factors and details to determine if it has enforceable rights and/or obligations (i.e., what is enforced), and the implicit or explicit consequences of not satisfying those rights and/or meeting those obligations (i.e., how it is enforced). As noted, this will be easier if the NPO has considered enforceable right and obligations and associated consequences of not meeting them in developing the arrangement.
- IG24A.6 Relevant factors include, but are not limited to:
- (a) The economic substance, rather than the legal form, of the arrangement;
 - (b) Terms that are written, oral, or implied by an NPO's customary practices;
 - (c) Whether it is legally binding through legal means (e.g., by the legal system, enforced through the courts, judicial rulings, and case law precedence), or compliance through equivalent means (e.g., if a party to the arrangement is able to draw on any executive authority or directives);
 - (d) Consequences of not fulfilling the obligations in the arrangement;
 - (e) Other binding grant arrangements with the grant recipient
 - (e) The specific jurisdiction, sector, and operating environment; and
 - (f) Past experience with the other parties in the arrangement.
- IG24A.7 Some mechanisms (for example, reductions of future funding) may constitute a valid mechanism of enforcement. An NPO should apply judgment and consider all facts and circumstances objectively, within the context of their jurisdiction, sector, and operating environment, in making this assessment. Paragraphs AG24A.5-AG24A.13 provide further guidance on assessing enforceability through legal or equivalent means and the how oral agreements and customary practices impact on these assessments.

Does a change in internal or external factors, after the inception of a binding grant arrangement, have accounting implications?

- IG24A.8 At inception, an NPO considers the terms and conditions of an arrangement to determine whether it meets the definition of a binding grant arrangement in paragraph G24A.3. If it does meet the definition, the grant-providing NPO accounts for the binding arrangement in accordance with paragraphs G24A.6 - G24A.28.

- IG24A.9 After inception, a grant-providing NPO should assess whether any changes in internal or external factors affect the enforceability of the binding grant arrangement (i.e., the substance of the arrangement), or the likelihood of enforcing the binding grant arrangement (i.e., the subsequent measurement of any grant prepayment assets or grant payment liabilities associated with the grant-providing NPO's right(s) and obligation(s) in the binding grant arrangement). Examples of such factors include, but are not limited to:
- (a) Changes in the legal framework that impact the ability of the grant-providing NPO, or other party or parties in the arrangement to enforce their respective rights through legal or equivalent means; and
 - (b) Changes in the grant-providing NPO's assessment of any party's choice to partially or fully exercise its ability to enforce its rights in the binding grant arrangement.
- IG24A.10 The implication on subsequent measurement of the respective grant prepayment asset or grant payment liability depends on whether the impact is likely to be permanent and should be accounted for in accordance with Section 21 *Provisions and Contingencies* or Section 11 *Financial Instruments*. A permanent change to an asset or liability will need to be adjusted using principles of Section 11. If the amount or timing is uncertain then the grant payment liability will be adjusted using principles of Section 21.

Part B - Grant expenses from transactions without binding grant arrangements

When an NPO transfers resources in a transaction without binding grant arrangements, is it possible for the transfer to result in the recognition of a grant prepayment asset?

- IG24A.11 A grant-providing NPO may have a one-way enforceable right over assets that have been transferred under a non-binding grant arrangement. This could be the ability to direct the grant recipient on how to use the resources transferred. Depending on the nature of this right, this may result in the recognition of an asset by the grant-providing NPO (for example a non-financial asset). This asset would be derecognised when or as the enforceable right is met.
- IG24A.12 It is not possible to recognise a grant prepayment asset without a binding grant arrangement. This is because a grant prepayment asset is an asset that arises because binding grant arrangements include grant fulfilment rights. It is not possible to recognise a grant prepayment asset without a binding grant arrangement.

Part C - Grant expenses from transactions with binding grant arrangements

C1 - Identifying grant fulfilment rights and compliance obligations and determining when they have been met

How does an NPO determine the distinct transfer rights in a binding grant arrangement in order to appropriately apply the accounting model for transactions with binding grant arrangements?

- IG24A.13 From the grant-providing NPO's perspective, a binding grant arrangement has at least one grant fulfilment right. A grant fulfilment right is a distinct component or element (unit of account) within a binding grant arrangement where the grant-providing NPO requires the grant recipient to meet a requirement.
- IG24A.14 Identifying a meaningful unit of account is fundamental to the appropriate recognition and measurement of grant expenses. In practice, since binding grant arrangements can vary substantially by entity, jurisdiction, sector, and operating environment, a grant-providing NPO will need to use professional judgment to determine the individual grant fulfilment rights in its binding grant arrangement.
- IG24A.15 A grant-providing NPO should first identify all the rights it has to require the grant recipient to satisfy its general obligation(s) or specific compliance obligation(s) in a manner as specified in the binding grant arrangement. Rights include the ability to require the grant recipient to use resources for a good or service internally or to transfer cash, a good, service, or other asset to a third party or third parties. A thorough assessment is necessary for the grant-providing NPO to identify all of its rights in the binding grant arrangement. However, as noted in IG24A.4 careful consideration in the development of the binding grant arrangement of the objectives of the grant-providing NPO will assist with this assessment.
- IG24A.16 A grant-providing NPO then considers each identified right to determine if a right is itself a distinct grant fulfilment right, or whether it should be grouped with other rights to be a single distinct grant fulfilment right. Thus, a grant fulfilment right is a unit of account that represents a distinct right or group of rights to which recognition and measurement concepts are applied.
- IG24A.17 A right in a binding grant arrangement is distinct if it can be enforced separately from other rights in the arrangement. A grant-providing NPO can consider the following factors when assessing whether a right is distinct:
- (a) The right relates to the grant-providing NPO's ability to require the grant recipient to provide cash, a good, service, or other asset that can be provided separately from other cash, goods, services, or assets to be provided under the binding grant arrangement;

(b) The right relates to the grant-providing NPO's ability to require the grant recipient to use cash, a good, service, or other asset internally in a specific manner separately from the use of other cash, goods, services, or assets to be used under the binding grant arrangement; and

(c) The cash, good, service, or other asset that the grant recipient is required to provide to third parties or use internally is not highly interdependent or highly interrelated with other cash, goods, services, or assets to be provided or used under the binding grant arrangement.

IG24A.18 Any distinct right, or distinct group of rights, identified by the grant-providing NPO through this analysis would be an individual grant fulfilment right.

How does a grant-providing NPO determine if a grant fulfilment right and compliance obligation is general or specific and when they have been met?

IG24A.19 A general obligation and associated grant fulfilment right will usually be related to the overall purpose of the grant recipient rather than focussed on individual programmes, projects and activities. As the grant recipient is required to use the resources to be transferred by the grant-providing NPO to undertake activities that support its overall purpose rather than relating to a specific programme or project they are likely to comprise a range of services, goods or other assets for internal use or external transfer. Unlike with specific compliance obligations, under the terms of the binding grant arrangement these services, goods or other assets may not individually be distinct.

IG24A.20 As such while the binding grant arrangement may provide some indication of how the resources are to be used to support the overall purpose of the grant recipient, these are likely to provide the grant recipient with a greater degree of freedom as to how it meets the obligation. The grant recipient is also likely to be subject to a lesser degree of monitoring by the grant-providing NPO to determine if, when and how the obligation has been met.

IG24A.21 As noted in paragraph AG24A.17, where a compliance obligation is of a more general nature, the grant-providing NPO should consider whether it can realistically avoid the transfer of resources. If it concludes that it cannot realistically avoid the transfer of resources to the grant recipient it should follow the recognition and measurement requirements of G24A.13.

IG24A.22 A specific compliance obligation and associated grant fulfilment right will move beyond the overall purpose of the grant recipient and focus more specifically on individual programmes, projects and activities. The binding grant arrangement will likely include named programmes, projects and activities that the grant recipient is required to use transferred resources on and expenditure that the grant-providing NPO will deem as

eligible or not by naming distinct services, goods or other assets that are to be internally used or externally transferred. Specific compliance obligations are also likely to be subject to a greater degree of monitoring of the grant recipient by the grant-providing NPO to determine if, when and how they obligation has been met.

If a grant-providing NPO has determined it has one grant fulfilment right which is met over time, how does the grant-providing NPO determine a measure of progress that best depicts how the grant fulfilment right is met?

IG24A.23 In general, a grant fulfilment right is met and a grant expense recognised when or as the grant-providing NPO can no longer require the grant recipient to act in accordance with the binding grant arrangement because the grant recipient has met its obligations in the arrangement. The appropriate method of measuring progress depends on the specific nature of the grant-providing NPO's grant fulfilment rights and the specific terms of the binding grant arrangement.

IG24A.24 In situations where the binding grant arrangement consists of one grant fulfilment right to have the grant recipient satisfy various interrelated activities, the grant fulfilment right may be partially met as individual activities are being performed by the transfer recipient. Common considerations which could inform when a grant fulfilment right has been partially met include:

(a) The grant recipient has performed some or all of the activities specified in the binding arrangement;

(b) The grant recipient has incurred eligible expenditures as outlined in the binding grant arrangement; and

(c) The grant recipient has achieved some of the milestones agreed upon in the binding grant arrangement.

IG24A.25 In cases where multiple parties are involved in the arrangement, the grant-providing NPO will need to consider whether a grant fulfilment right relates to the right to require another party in the arrangement to meet a specific compliance obligation. There could be situations where resources are passed through a series of entities before being transferred to the ultimate grant recipient. In these situations, the grant-providing NPO will need to consider whether the grant fulfilment right being met depends on the satisfaction of the ultimate grant recipient's compliance obligations as specified in the binding grant arrangement.

IG24A.26 In other cases, a grant recipient may be unable or unwilling to satisfy its obligations in the binding grant arrangement following the transfer of resources to it from the grant-providing NPO. When this occurs, the grant-providing NPO considers if the terms of the binding grant arrangement, along with the legal framework in the relevant jurisdiction,

give the grant-providing NPO the unconditional right to receive cash or return of resources (e.g., a refund of the transferred resources). Such an unconditional right results in the derecognition of the grant prepayment asset and the recognition of a financial asset (see G24A.27). If the binding grant arrangement and relevant legal framework do not support the recognition of a financial asset, the grant-providing NPO then considers if the grant prepayment asset has been impaired (see G24A.28).

C2 - Allocating the grant payment consideration to the grant fulfilment right

How should an NPO determine the suitable method for estimating the standalone consideration of a grant fulfilment right?

IG24A.27 Generally, grant-providing NPO would want to explicitly specify in a grant binding arrangement the amount of resources it is willing to transfer for each grant fulfilment right (i.e., the stand-alone consideration is typically specified for each grant fulfilment right). In situations where the stand-alone consideration is not explicitly stated, the grant-providing NPO is required to determine the best estimate of the amounts that it intended to compensate the grant recipient for meeting its obligation when negotiating the binding arrangement.

IG24A.28 The most suitable method to estimate the stand-alone consideration will depend on the quality and type of information that is available to the grant-providing NPO. For example, the individuals negotiating a binding grant arrangement may have contemporaneous records detailing how they estimated the stand-alone consideration for general and specific grant fulfilment rights included in the binding arrangement. Other grant-providing NPOs may have detailed internal budget information documenting the resources it is willing to pay for each general and specific grant fulfilment right. In other cases, the individuals negotiating a binding arrangement may be using a standard pricing list from the grant recipient to estimate the total resources to be transferred. In this situation, the standard prices for each individual deliverable can be used to estimate the standalone consideration of each grant fulfilment right.

C3 - Accounting for multi-year arrangements

Are different principles required to account for, and recognise transfer expenses from, multi-year arrangements?

IG24A.29 Multi-year arrangements, generally involve the provision of resources over multiple years for a specific purpose (for example, supporting medical research on a particular disease). The provision of resources may occur at multiple dates throughout a year and/or across multiple years.

IG24A.30 While these arrangements span a longer term, the accounting principles for grant expense transactions still applies. A grant-providing NPO shall consider whether the multi-year arrangement is a binding grant arrangement and apply the principles in the paragraphs G24A.4-G24A.5 for grant expenses arising without binding arrangements, or paragraphs G24A6-G24A.28 for grant expenses arising from transactions with binding grant arrangements. The NPO shall consider the recognition of a grant expense independently from the timing of when resources are transferred.

Part D – Sensitive information

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

IG24A.31 Grant-providing NPOs are permitted to not disclose detailed information about grant expenses 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. It is intended to include situations where there is a risk, including of 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, or that would provoke significant ongoing disruption to the grant-providing NPOs or partner entity's operating activities in a locality if information was publicly disclosed in the general purpose financial reports.

IG24A.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 jeopardise the safety and security of staff, volunteers, the public that benefit from the services and provided by the grant-providing NPO, or other entities and individuals that engage with the grant-providing NPO.

IG24A.33 Examples of sensitive or mission prejudicial information that a grant-providing NPO may not disclose could include, but is not limited to:

- (a) information that identifies the nature of activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
- (b) information that discloses the scope of geographic activities being undertaken by a grant-providing NPO or entities and individuals that engage with it;
- (c) information that identifies the individuals, communities or groups that benefit from the services and goods provided by the grant-providing NPO or entities that engage with it.

Illustrative Examples

The following examples aim to illustrate the application of the principles for accounting for grant expenses. They show how features of the model for recognising grant expenses, such as determining whether or not a binding grant arrangement exists and if rights and obligations are general or specific in nature, could be considered.

The circumstances in relation to individual NPOs and transactions will vary significantly. These examples are only illustrations of how the guidance could be applied. Individual NPOs will need to use their own professional judgement to apply the guidance to their own circumstances.

Example 1: NPO has a constructive obligation outside of a binding grant arrangement

NPO A has been set up to support children in a rural community access education. Parents are required to register their children with NPO A in advance of the school year. As part of this registration, the parents sign an agreement that commits them to signing up their child to attend school in exchange for NPO A committing to transfer cash for school fees directly to the school. If the child subsequently does not attend school, the parents are required to reimburse NPO A for the amount of fees it has paid.

The children are dispersed across a wide geographical area. In outreach to promote the school fee scheme NPO A has told the community that to support access it intends to provide free transportation to all children that are registered with it for the upcoming school year. NPO A has not provided a detailed explanation of how it will do this, but has noted it is most likely to involve providing parents with additional funds so that they can pay for the cost of using local minibus taxis. Without this free transportation most children would not be able to attend school as private means of transportation are unavailable. This offer of free transportation is not, however, included in the agreement between parents and NPO A and there is no agreement in place between NPO A and any other entity to provide this service.

Is there a binding grant arrangement in relation to the free transportation?

A binding grant arrangement is a grant arrangement that confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement. There is a binding grant arrangement between NPO A and the parents for the payment of school fees. The parents commit to signing up their child to attend a school and NPO A agrees to pay the school fees. In relation to the free transportation, however, NPO A has only made a general statement of intent to provide free transportation. This does not create a binding grant arrangement between NPO A and parents or any other entity under which both parties have rights and obligations in relation to the free transportation.



Does NPO A have a constructive obligation and how should it be accounted for?

While a binding grant arrangement for the free transportation may not exist, NPO A may still have an obligation. This is because through its statements of intent at outreach events NPO A may be deemed to have created a valid expectation that it will ensure that free transportation is available. This is a constructive obligation. Although not included in the school fee agreement between parents and NPO A, absent NPO A ensuring that free transportation is available most children will be unable to attend school. For the parents of these children, it is unlikely that they would have signed an agreement requiring them to reimburse the fees NPO A has paid if the expected free transport was not believed to be available.

Where there is no binding grant arrangement, a grant-providing NPO recognises a grant expense when there is a constructive obligation to transfer resources that results in the recognition of a provision. If NPO considers that it does have a constructive obligation, it will need to recognise the grant payment provision and the grant expense. To do so NPO A will need to estimate the amount of the obligation at the point where the constructive obligation exists, which is likely to be when the parents have signed the agreement and NPO A has transferred the school fees. The measurement of the constructive obligation will involve determining the cost for parents who have signed the agreement and have had school fees paid by NPO A of paying minibus taxis to transport their children to school. When NPO subsequently transfers resources to the parents to pay for the transport, this will settle the recognised grant payment provision.

Example 2: NPO is party to a binding grant arrangement with a general grant fulfilment right and a general obligation

NPO B has the primary objective of supporting the welfare of working animals that have been retired. It specialises in fundraising from the general public and then providing financial support to other NPOs that operate animal sanctuaries.

NPO B signs a written grant agreement with NPO C. NPO C is a donkey sanctuary that NPO B has supported a number of times in the past. The terms of this agreement are that NPO B will provide NPO C with a grant of CU1m which NPO C is required to spend on its overall purpose of supporting the welfare of donkeys in its care. As NPO B has provided grants without any issues arising as to eligibility of expenditure to NPO C in the past, only a high level review of how transferred resources have been used is anticipated for in the grant agreement.

Is there a binding grant arrangement and how should it be accounted for?

The written grant agreement is a binding grant arrangement. NPO C has a compliance obligation to spend transferred resources on its overall purpose of supporting the welfare of donkeys in its care. Meeting this obligation means that NPO B is required to transfer the resources to it.

The light touch nature of the review and the general nature of the grant fulfilment right and compliance obligation means that realistically NPO B will be unable to avoid the transfer of resources. NPO B should therefore recognise a grant expense for the full CU1m value of the grant and a matching grant payment liability until the resources are transferred to NPO C.

Example 3: NPO is party to a binding grant arrangement with multiple specific grant fulfilment rights and compliance obligations and transfers cash and non-cash resources

NPO D is a global centre of excellence in the study and treatment of zoonotic diseases. In addition to its own research activities, it supports governments in a number of other jurisdictions by providing funding, staff resources and vaccines to them.

NPO D has signed an agreement with the government of a jurisdiction. This agreement covers support for a number of programmes, projects and activities that the government is undertaking in the area of zoonotic diseases but the most significant are:

- (i) CU10m in cash to be spent reimbursing the training costs of the jurisdiction's medical graduates in methods for identifying and treating zoonotic diseases. The amount is based on a grant of CU10,000 to cover the costs of tuition of each of 1,000 graduates in the jurisdiction's medical school. To be eligible for reimbursement of the training costs each graduate must complete the training and pass an exam.
- (ii) CU50m in vaccines that are currently held by NPO D for the most common zoonotic diseases in the jurisdiction. The vaccines are provided according to the principal that the jurisdiction must first use its own supplies of vaccines and provide audited records that show how and when the vaccines were used before NPO D will transfer its vaccines to replenish the jurisdiction's available supply.

Is there a binding grant arrangement and how should it be accounted for?

The agreement between NPO D and the jurisdiction's government is a binding grant arrangement. The jurisdiction has two compliance obligations which are specific in nature. The first is to train 1,000 graduates in identifying and treating zoonotic diseases and ensure that they complete the training and pass a final exam. The second is to use its own vaccines and to provide audited records of their use. If these compliance obligations are met NPO D will provide CU10,000 for each graduate who has completed the training course and passed the exam and transfer CU50m of vaccines that are currently held by NPO D to replenish the jurisdiction's own supply that have been used.

For both of these specific compliance obligations, NPO D can realistically avoid the transfer of resources. Grant will only be provided for those graduates who complete the training course and pass the exam, and vaccines will only be transferred when the jurisdiction has used its own supply and provided audited records to verify this. In this example NPO D will recognise grant expenses when:

- (i) it receives confirmation of the number of graduates who have completed the course and passed the exam, with a grant expense of CU10,000 recognised for each successful graduate; and
- (ii) it receives the audited records showing that vaccines have been used, with a grant expense recognised at the measurement of the vaccines held by NPO D that are to be transferred to the jurisdiction.

The recognition of a grant prepayment asset or a grant payment liability by NPO D and their subsequent derecognition will depend on the timing of the transfer of resources to the jurisdiction's government.

Example 4: NPO is party to a binding grant arrangement with payments of grant over multiple years

NPO E provides budget support to sub-national governmental bodies to help them meet essential administrative costs. By providing budget support, the governmental bodies are then able to direct the resources they generate from other sources such as taxation towards costs associated with programmes, projects and activities rather than administration.

NPO E has signed an agreement with a regional government that is expanding a number of programmes that aim to protect environmental habitats while also providing employment for indigenous communities. The agreement between NPO E and the regional government provides the regional government with CU2m of budget support each year for five years provided that a long-term budget envelope is passed to fund the programmes. The regional government has subsequently passed a five year budget envelope that dedicates CU10m to these projects based on receiving the same amount in budget support over that period.

Is there a binding grant arrangement and how is it accounted for?

The agreement between NPO E and the regional government is a binding grant arrangement. NPO E has agreed to provide a total of CU10m to the regional government provided that a long-term budget envelope has been passed by the legislature. As there are no further compliance obligations placed on the regional government, NPO E is unable to realistically avoid the transfer of resources.

Although the arrangement spans five years, with the transfer of CU2m due each year, the recognition of the grant expense must be considered independently from the timing of when the resources are transferred. For the recognition of a grant expense, NPO E must consider whether the regional government has performed under the terms of the binding grant arrangement and met its compliance obligation. As it has done so for the entire amount that NPO E is obliged to transfer, it is this which is the key consideration and not when the transfer of resources is scheduled to occur. NPO E will therefore recognise a grant expense and matching grant payment liability of CU10m once the five year budget envelope has been passed by the regional

government. This grant payment liability will be reduced by CU2m each year as the resources are transferred from NPO E to the regional government.

Example 5: NPO is party to a binding grant arrangement with a capital grant

NPO F is funded by professional sports teams in a region, and exists to provide funding to community sports organisations in that region to build their own sporting facilities.

NPO F has signed an agreement with a community athletics organisation to upgrade its facilities. This provides the community athletics organisation with CU5m of upfront funding for major building work including a new changing facility, a small grandstand for spectators, and the installation of an all-weather running track. Under the agreement any unspent funds are to be returned to NPO F.

Is there a binding grant arrangement and how is it accounted for?

The agreement between NPO F and the community athletics organisation is a binding grant arrangement involving a capital grant. The terms of the binding grant arrangement require the community athletics organisation to construct a number of specified non-financial assets, namely the changing facility, the grandstand, and the all-weather running track in exchange for the transfer of resources.

As the community athletics organisation is constructing the non-financial assets, NPO F's grant fulfilment rights are met as the assets are being built. NPO F and the community athletics organisation have agreed a methodology based on percentage of completion. This measures progress based on costs incurred against the overall projected costs of the building work. As NPO F has provided the full expected cost of the project as a transfer to the community athletics organisation upfront, it has recognised a grant prepayment asset for this amount. NPO F will recognise grant expenses and derecognise the grant prepayment asset over time based on the percentage of costs incurred to date by the community athletics organisation. The grant prepayment asset will be fully derecognised once the project is completed. If overall costs are lower than the initial transfer of resources from NPO F to the community athletics organisation NPO F is entitled to reimbursement and part of the grant prepayment asset will be reclassified to a financial asset. The financial asset will be derecognised once the unused funds are reimbursed.

Example 6: NPO is party to a grant arrangement with a 'termination for convenience' clause

NPO G is a donor organisation that relies on investment income to finance its funding of other entities and individuals. Restrictions on the use of its investments means that it can only use investment return in any year, which results in significant fluctuations in the income available to it.

As a result, NPO G includes a 'termination for convenience' clause in all of its agreements with other entities and individuals. This allows NPO G to terminate an agreement at any time without there being a breach of the agreement. It has just signed an agreement with NPO H - an international humanitarian organisation - to provide CU1m to purchase emergency ration packs for distribution to refugees. The terms of the agreement indicate that the transfer of resources is due when NPO H has purchased and distributed the ration packs.

Is there a binding grant arrangement and how is it accounted for?

A binding grant arrangement confers both rights and obligations, enforceable through legal or equivalent means, on the parties to the grant arrangement. In determining whether a grant arrangement is enforceable, a grant-providing NPO must consider the substance rather than the legal form of the grant arrangement.

NPO G has a specific grant fulfilment right under the agreement for NPO H to purchase and distribute ration packs to refugees – this is also NPO H's specific compliance obligation. In return NPO G is obliged to provide CU1m to NPO H. The legal form of the arrangement does, however provides NPO G with the ability to terminate the agreement at any time without their being a breach of the agreement. This means that even after NPO H has fulfilled its compliance obligation, NPO G would be able to terminate the agreement and not transfer the resources.

Whether a binding grant arrangement exists depends on enforceability and the substance of the arrangement. If it is unlikely that NPO G would utilise the 'termination for convenience' clause because it has no past history of doing so and/or in addition to the written agreement there is a deemed oral agreement or customary practices that are legally or otherwise enforceable then a binding grant arrangement may be deemed to exist. In this case NPO G would recognise a grant expense and grant liability once NPO H has met its specific compliance obligation.

If, however, NPO G does have a history of utilising these clauses, and they are seen to override any deemed oral agreements or customary practices meaning that NPO H could not enforce the obligation for NPO G to transfer the resources once it has purchased and distributed the ration packs a binding grant arrangement may be deemed not to exist. In this case NPO G would follow the guidance for the recognition and measurement of grant expenses where there isn't a binding grant arrangement. This would see it recognise a grant expense when it has transferred the resources to NPO H, measured at the value of the transferred resources.

Annex C

Basis for Conclusions

Consultation Paper – issues identified and approaches

- BC24A. 1 The recognition and measurement of grant expenses was identified as a specific issue for non-profit organisations in the IFR4NPO Consultation Paper with a number of financial reporting challenges highlighted. These included that grant expenses are not currently explicitly covered in international accounting standards; that significant judgement may be required to determine what has been promised to a grant recipient, what commitments have been created, the identification of obligating events, and when a grant expense should be recognised; and how and when to recognise accruals, assets and/or provisions.
- BC24A. 2 Respondents were supportive of the description of the issue, and also provided some additional considerations including the need to ensure that any guidance covered in kind transfers and that grant arrangements were properly distinguished from procurement.
- BC24A. 3 The Consultation Paper proposed two alternative financial reporting treatments for developing guidance. The first was to base the guidance on the IFRS for SMEs Accounting Standard but to provide additional guidance on NPO-specific issues, the second was to build on the first alternative but to also include additional guidance based on the principles proposed in IPSAS ED 72 Transfer Expenses.
- BC24A.4 Respondents again provided some additional considerations that they did not believe were adequately covered by the alternatives. These included issues related to non-performance related conditions such as time in multi-year grants and detail on when a donor would have an obligation to make a payment to a recipient and recognise an expense in jurisdictions where grant arrangements included ‘termination for convenience’ clauses that allowed the donor to terminate an agreement at any time without there being a breach of the agreement.
- BC24A. 5 The majority of respondents supported the alternative that incorporated the principles contained in IPSAS ED 72. While more complex, they noted that it would provide better and clearer guidance on key issues such as performance obligations and multi-year grants and may also bring broader financial management improvements.
- BC24A. 6 Following the publication of the Consultation Paper and analysis of responses, the IPSASB further developed the proposals of IPSAS ED 72 to produce a draft Transfer Expenses standard. A proposal to base the guidance on this draft IPSAS Standard was taken to the Technical Advisory Group, who while supportive of the approach cautioned

there was a need to keep in mind the cost/benefit of the proposals especially with respect to any additional monitoring or reporting requirements that may be required. They also noted that it would be necessary ensure that there was a common approach taken to terms used in guidance for bother expenses and revenues.

Adaptation of draft IPSAS Standard

- BC24A. 7 The first essential concept requiring adaptation of the draft IPSAS Standard relates to the definition of grant expenses. The draft IPSAS Standard establishes principles for transfer expenses. INPAG Section 24A takes a similar conceptual approach but transfer expenses are redefined as grant expenses, grant recipient is defined, and an explicit reference is made to cash transfers. It is also classified in the definition, as requested by the project's Practitioner Advisory Group, that an expense can arise from an obligation to transfer resources and not just when resources are transferred.
- BC24A. 8 Under the definition of grant expense, it was agreed with the Technical Advisory Group and the Practitioner Advisory Group that the term 'grant' encompasses any cash, service, good or other asset that is transferred by the grant providing NPO to a grant recipient without the grant providing NPO directly receiving any cash, service, good or other asset in return. This therefore incorporates items that may otherwise be described as donations, gifts, and similar transfers of resources as well as grants.
- BC24A. 9 By making explicit reference to the fact that the grant providing NPO will not directly receive any cash, service, good or other asset in return for the transfer, this also makes a clear distinction between an NPO's grant provision activities and those that relate to procurement.
- BC24A. 10 The second essential concept is the use of binding arrangements from the draft IPSAS Standard, redefined here as binding grant arrangements. Binding arrangements are important conceptually because the enforceable rights and obligations they contain enables the NPO to assess whether it has the right to require a grant recipient to meet an obligation in exchange for an agreed transfer of resources.
- BC24A. 11 The potential for a binding grant arrangement to exist as a result of oral agreements and customary practices has been retained from the IPSAS definition of a binding arrangement. In some jurisdictions oral agreements have the same force in law as written agreements subject to certain factors being in place so it was deemed appropriate by the Secretariat for these to have the same standing. The position with customary practice is more open to debate as it is based on the law of legitimate expectations that is applicable in some jurisdiction but which is usually more associated with public bodies. It has been retained but with a clear indication in the Application Guidance that this is usually more likely to occur with public bodies and that such

legitimate expectations would need to be capable of being upheld by either a legal or equivalent mechanism.

Recognition and measurement principles where there are no binding grant arrangements

BC24A. 12 Recognition and measurement principles where there are no binding grant arrangements follow the same conceptual basis as the draft IPSAS Standard. The Technical Advisory Group and the Practitioner Advisory Group were both supportive of the requirement put forward by the Secretariat that a constructive obligation to transfer resources that results in the recognition of a provision would require the recognition of a grant expense by the grant-providing NPO, but that additional guidance was necessary around general statements of intent to provide resources and how this interacted with binding grant arrangements. This has been provided in Application Guidance and Implementation Guidance and Examples.

Recognition and measurement where there are binding grant arrangements

BC24A. 13 Binding grant arrangements may vary significantly in complexity but there are common principles that will be applicable to all. It is important to recognise that they will be wholly unsatisfied if the grant-providing NPO has not yet paid, and is not yet obligated to pay, consideration to the grant recipient and the grant recipient has not yet met any of its stated compliance obligations in the binding grant arrangement. Where this is the case nothing will be recognised, although the disclosure requirements will still apply.

BC24A. 14 The grant-providing NPO will need at the inception of the binding grant arrangement to determine its distinct grant fulfilment rights to have the grant recipient meet a general obligation or a specific compliance obligation, and the amount of consideration that it is required to pay (in cash, services, goods or another asset) the grant recipient for meeting each right. It is the nature of these grant fulfilment rights that dictates subsequent recognition and measurement.

BC24A. 15 In an adaptation of the draft IPSAS Standard, the Section makes a distinction between general and specific grant fulfilment rights and general obligations and specific compliance obligations. The Secretariat has refined the definition of general and specific rights and obligations following discussion with the Technical Advisory Group on the guidance in this Section.

BC24A.16 It is now clarified that a general grant fulfilment right and general obligation is one that will usually be related to the overall purpose of the grant recipient. The activities of the grant recipient supported by the transfer of resources are likely to comprise a collective set of services, goods or other assets for internal use or external transfer which, under the terms of the binding grant arrangement, may not individually be distinct. Collectively, however, these services, goods or other assets will usually be incremental

to the services, goods or other assets that would have been available to the grant recipient for internal use or external transfer without the resource transfer from the grant-providing NPO.

BC24A.17 Specific grant fulfilment rights and specific compliance obligations will move beyond the overall purpose of the grant recipient and focus more specifically on individual programmes, projects and activities. They will involve a promise by the grant recipient to use resources internally for distinct services, goods or other assets or to transfer distinct services, goods, cash or other assets to a purchaser or third-party beneficiary

BC24A. 18 This distinction between general and specific rights and obligations is important because general grant fulfilment rights and general obligations mean that the grant-providing NPO are less likely to realistically be able to avoid the transfer or resources. Specific grant fulfilment rights and specific compliance obligations by contrast, will usually require resources to be utilised on specific named programmes, projects and activities and in a specified manner. These will often be subject to a greater degree of monitoring of the grant recipient by the grant-providing NPO to determine if, when, and how the obligation has been met, and as a result it will be more likely that the grant-providing NPO can realistically avoid the transfer or resources.

BC24A.19 The Secretariat recognises that NPOs may face difficulties in determining if a grant fulfilment right is general or specific, deciding on suitable methods for estimating stand-alone consideration, and understanding when the grant recipient has met its obligations meaning that the grant fulfilment right has been met. While these will vary depending on the economic substance of each binding grant arrangement, additional guidance has therefore been provided in the Implementation Guidance and Examples.

BC24A. 20 Authoritative guidance has also been provided for the following circumstances:

- Payments of grant over more than one financial year
- Variable consideration
- Capital grants
- Rights and obligations that are outside of the control of the grant-providing NPO

Payments of grant over more than one financial year

BC24A. 21 The Section requires a grant expense to be recognised by the grant-providing NPO for the total amount of the resources that must be transferred under the binding grant arrangement to the grant recipient for the obligations it has met. This is regardless of the timing of the transfer of the resources from the grant-providing NPO.

BC24A.22 Where neither party has met any obligations under the binding grant arrangement, the grant-providing NPO will not recognise any transactions associated with the binding grant arrangement. This is akin to an executory contract. The recognition of transactions will only being as one or both parties begin to fulfil their obligations.

BC24A.23 Where an obligation has been met by the grant recipient prior to the transfer of resources by the grant-providing NPO, the grant-providing NPO must recognise a grant payment with the grant expense. Where resources have been transferred by the grant-providing NPO to the grant recipient prior to the grant recipient meeting its obligation a grant prepayment asset will have previously been recognised. This will be derecognised when the grant expense is recognised.

BC24A. 24 The Section reflects the view of the Secretariat that only where payments of grant for later years are subject to the grant recipient satisfying obligations that have not yet been met, meaning that the grant-providing NPO may under the terms of the binding grant arrangement be able to not transfer resources will a grant expense not be recognised.

Capital grants

BC24A. 25 A capital grant arises from a binding grant arrangement in which a grant-providing NPO transfers cash or another asset to a grant recipient with a specification that the grant recipient acquires or constructs a non-financial asset that the grant recipient will then control.

BC24A. 26 Although there is a requirement for the grant recipient to acquire or construct an asset, from the perspective of the grant-providing NPO the recognition of a grant expense for a binding arrangement involving a capital grant is the same as for any other grant expense.

BC24A. 27 Complications may arise though when the grant recipient constructs the non-financial asset, as the grant fulfilment right will be met as the asset is being built. In such cases the grant expense will need to recognised by the grant-providing NPO based on an agreed methodology for the measure of progress made by the grant recipient. While no methodologies are included in the authoritative guidance, the implementation examples include one possibility that was discussed with the Practitioner Advisory Group.

BC24A. 28 A further complication may arise when there are conditions in the binding grant arrangement that prevent the grant recipient from disposing of the acquired or constructed asset or using it for other purposes. If such conditions mean that the grant recipient is required to either transfer the asset to the grant-providing NPO or to reimburse the grant that was used to acquire or construct the asset, a question may

arise as to the extent to which the grant recipient had control of the capital asset. This is a complex area that will depend on the individual circumstances of each binding grant arrangement and the application of professional judgement. As such the Secretariat considers that guidance that indicates the grant-providing NPO should consider whether the grant recipient was acting as an agent is sufficient.

Variable consideration

BC24A. 29 Variable consideration can arise where the grant payment consideration that the grant-providing NPO is obliged to pay the grant recipient may vary for items such as incentives, penalties, or other similar items, or if the grant-providing NPO's obligation to provide the resources is contingent on the occurrence or non-occurrence of a future event.

BC24A. 30 If the grant-providing NPO determines that it is more likely than not that a present obligation exists for the payment of variable consideration then this a liability of uncertain timing or amount will need to be recognised. The grant-providing NPO is, therefore, required to estimate an amount of variable consideration that is initially and subsequently measured in accordance with paragraphs G21.8-G21.12 of Section 21 *Provisions and Contingencies*.

Rights and obligations that are outside of the control of the grant-providing NPO

BC24A. 31 Where there is variable consideration, a grant-providing NPO determines if it is more likely than not that a present obligation exists for the payment of variable consideration exists and if so is required to recognise a liability of uncertain timing or amount. The same conceptual recognition principles apply where binding grant arrangements contain rights and obligations that are outside of the control of the grant-providing NPO.

BC24A. 32 In such circumstances if a present obligation exists and the transfer of resources is probable the grant-providing NPO should follow the requirements of Section 21 *Provisions and Contingencies*.

Grant prepayment assets and grant payment liabilities

BC24A. 33 A binding grant arrangement confers enforceable rights and obligations on the parties to the arrangement. This means that if the grant recipient fulfils its compliance obligations to the grant-providing NPO it has a right to receive the consideration that is due to it from the grant-providing NPO. Likewise in exchange for the consideration provided to the grant recipient, the grant-providing NPO has rights that require the grant recipient to meet the compliance obligations.

- BC24A. 34 A grant expense is recognised when the grant recipient has met its compliance obligations. Timing differences related to the transfer of resources may mean, however, that the transfer of resources occurs either before or after the grant expense has been recognised.
- BC24A. 35 While the concept of a grant payment liability when the grant expense is recognised before the transfer of resources occurs is uncontroversial, there are questions related to the nature of the grant prepayment asset that is recognised when the transfer of resources to the grant recipient occurs prior to the recognition of a grant expense.
- BC24A. 36 The grant prepayment asset is not a financial asset, although it can be reclassified as such if the grant recipient is unable or unwilling to meet its obligations and the grant-providing NPO has the right to receive cash back from the grant recipient. Rather it reflects the right that the grant-providing NPO has to require the grant recipient to meet its compliance obligations given that the grant-providing NPO has already met its own obligation to transfer consideration.

Principal agent considerations

- BC24A. 37 NPOs acting on behalf of other entities was a topic that was included in the IFR4NPO Consultation Paper. It was included because distinguishing between where an NPO acts as an agent for other entities or is acting in its own right is important to understand the accountability of an NPO, to provide transparency over its operating income and expenditure and to understand an NPO's operating model.
- BC24A. 38 Based on the responses to the Consultation Paper, and the changes that are being adopted in the IFRS for SMEs Accounting Standard that introduces a control-based rather than risks and rewards approach, it was agreed with the Technical Advisory Group that a control-based approach to principal agent issues would be introduced into INPAG.
- BC24A. 39 This control-based approach focuses on the extent to which an NPO has control over an economic resource, which requires it to have the present ability to direct the use of the economic resource and obtain the economic benefits or service potential that may flow from it.
- BC24A. 40 To be a principal therefore requires the NPO to obtain economic benefits or service potential from an economic resource in order to further its own purpose and achieve its own objectives, and to be able to do so without requiring authorisation from another entity.

- BC24A. 41 An NPO is acting as an agent when it does not control the economic resources in an arrangement. This is the case when the NPO is acting for another entity's purpose and objectives, acts in accordance with the instructions or directions of the other entity, and has no discretion about the use to which the resources received are put.
- BC24A. 42 In addition to these overall principles it was agreed with the Technical Advisory Group that guidance would not be included as a standalone Section in INPAG but rather integrated into those Sections where guidance on agent principal relationships is required. Section 24A Grant Expenses is one such Section.
- BC24A. 43 Following the agreed control approach, if a grant providing NPO controls the economic resources that are transferred to the grant recipient it is proposed that it will be a principal in the transaction and the recognition, measurement, presentation and disclosure requirements of INPAG Section 24A relating to grant expenses will apply. If the grant providing NPO does not control the economic resources, it is likely to be acting as an agent for another entity. In this situation it is proposed that the grant providing NPO will follow the requirements in Section 24A for NPOs acting as an agent and only costs incurred in the administration of the agency arrangement will be recognised as expenditure by the grant providing NPO.

Disclosures

- BC24A. 44 The focus of the disclosure requirements is driven by user needs and the ability of them to understand the nature, amount, timing and any uncertainty arising from grant expenses. As such in addition to numerical-based disclosures associated with grant expenses and associated assets and liabilities narrative-based disclosures have been proposed as part of the authoritative guidance. These are focused on describing the purpose of material arrangements and any features such as variable consideration, payment terms or resources to be transferred that are useful to users for accountability and decision-making purposes. Presentation principles where a grant-providing NPO has financed a grant expense with revenue that has been classified to funds with restrictions are included. Additional disclosures are also required where there are grant transactions arising from principal agent arrangements.
- BC24A. 45 Following review of the first draft of the authoritative guidance, a Technical Advisory Group member noted that permission to not disclose 'sensitive information' as has been proposed for Section 35 *Narrative Reporting* would also be required in relation to aspects of grant expenses disclosures. The Secretariat agrees with this position and as such a sensitive information disclosure exemption was included in the authoritative guidance. This permission to not disclose is to be utilised by an NPO when to do so would compromise the safety or wellbeing of individuals working/volunteering for and with the grant-providing NPO, or those to whom it provides cash, goods, services and



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other assets, because the information is sensitive and/or could prejudice the ability of the grant-providing NPO to deliver its mission. A grant-providing NPO is required to present information related to grant expenses that does not result in sensitive information.