

*Proposed Amendment to International Public
Sector Accounting Standard — Financial
Reporting Under the Cash Basis of Accounting*

**Financial Reporting Under
the Cash Basis of
Accounting — Disclosure
Requirements for Recipients of
External Assistance**



**International Federation
of Accountants**

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The International Public Sector Accounting Standards Board (IPSASB) is a standing board of IFAC. It develops accounting standards for the public sector.

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COMMENTING ON THIS EXPOSURE DRAFT

This Exposure Draft of the International Federation of Accountants (IFAC) was prepared by the International Public Sector Accounting Standards Board (IPSASB). The proposals in this Exposure Draft may be modified in the final Standard in the light of comments received before being issued in the form of an International Public Sector Accounting Standard (IPSAS).

Comments should be submitted in writing so as to be received by March 31, 2007. Email responses are preferred. All comments will be considered a matter of public record. Comments should be addressed to:

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INTRODUCTION TO THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

The International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB) develops accounting standards for public sector entities referred to as International Public Sector Accounting Standards (IPSASs). The IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across jurisdictions and it believes that the IPSASs will play a key role in enabling these benefits to be realized. The IPSASB strongly encourages governments and national standard-setters to engage in the development of its Standards by commenting on the proposals set out in Exposure Drafts.

The IPSASB issues IPSASs dealing with financial reporting under the cash basis of accounting and the accrual basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) where the requirements of those Standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs.

The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world. The IPSASB recognizes the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB encourages the adoption of IPSASs and the harmonization of national requirements with IPSASs. Financial statements should be described as complying with IPSASs only if they comply with all the requirements of each applicable IPSAS.

The IPSASB encourages governments to progress to the accrual basis of accounting and to harmonize national requirements with the IPSASs prepared for application by entities adopting the accrual basis of accounting. Entities intending to adopt the accrual basis of accounting at some time in the future may find other publications of the IPSASB helpful, particularly Study 14, "Transition to the Accrual Basis of Accounting: Guidance for Governments and Government Entities" (2nd Edition).

This Exposure Draft proposes that Part 1 of the IPSAS "Financial Reporting Under the Cash Basis of Accounting" (Cash Basis IPSAS) be amended to include additional disclosure requirements for recipients of external assistance. It also proposes that Part 2 of the Cash Basis IPSAS be amended to identify additional encouraged disclosures for recipients of external assistance.

Due Process and Timetable

An important part of the process of developing IPSASs is for the IPSASB to receive comments on the proposals set out in IPSAS Exposure Drafts from governments, public sector entities, auditors, standard-setters and other parties with an interest in public sector financial reporting. Accordingly, each proposed IPSAS is first released as an Exposure Draft inviting interested parties to provide their comments. Exposure Drafts will usually have a comment period of four months, although longer periods may be used for certain Exposure Drafts. Upon the closure of the comment period, the IPSASB will consider the comments received on the Exposure Draft and may modify the proposed requirements and encouragements in the light of the comments received before proceeding to issue a final Standard.

Background

Providers of external assistance, particularly providers of development assistance, require recipients to follow a variety of accounting practices. Recipients of external assistance usually receive external assistance from a number of sources. Adhering to a number of different accounting practices and reporting requirements within a portfolio of projects imposes significant compliance costs on recipients.

The Cash Basis IPSAS was issued in January 2003. Many recipients of external assistance maintain their accounts on the cash basis of accounting. In response to requests from constituents for a generally accepted accounting standard for reporting external assistance, the IPSASB has developed this Exposure Draft which proposes that the Cash Basis IPSAS be amended to include additional disclosure requirements and additional encouraged disclosures for recipients of external assistance. It reflects the view that reporting requirements for external assistance should be harmonized on the basis of accounting principles followed by the recipient.

This Exposure Draft has been developed following consideration of responses received on Exposure Draft 24, “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” issued in February, 2005 with comments requested by June 13, 2005.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the disclosure of information about external assistance. It also identifies additional disclosures that a recipient is encouraged, but not required, to make.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by March 31, 2007. The IPSASB would prefer that respondents express a clear overall opinion on whether the Exposure Draft in general is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on the specific issues in the Exposure Draft. Respondents are also invited to provide detailed comments on any other aspect of the Exposure Draft (including materials and examples contained in appendices) indicating the specific paragraph number or groups of paragraphs to which they relate. It would be helpful to the IPSASB if these comments clearly explained the issue and suggested alternative wording, with supporting reasoning where this is appropriate.

Specific Matters for Comment

The IPSASB would particularly value comments on:

1. Whether the designation of certain disclosures as required and other disclosures as encouraged is appropriate. If the proposed designation is not considered appropriate, please identify the amendments and/or reclassifications you consider appropriate.
2. Whether the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” should be amended to include the additional required and encouraged disclosures, or whether the required and encouraged disclosures should be issued as a separate “stand alone” Cash Basis IPSAS.
3. Whether the proposed definition of “external assistance” in paragraph 1.9.1 is sufficiently broad to encompass all official resources received.
4. Whether the separate disclosures of the amount of external assistance should be required on the face of the Statement of Cash Receipts and Payments as is currently required in paragraph 1.9.6, or whether the IPSAS should allow such disclosure to be made either on the face of the Statement of Cash Receipts and Payments or in the notes thereto.
5. Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should also be included in the definition of “external assistance”. Currently, the proposed Standard requires that entities disclose all official resources received. Official resources as defined in paragraph 1.9.1 would exclude certain assistance received from NGOs.
6. Whether the Standard should encourage the disclosure of specific categories of external assistance or only the disclosure of external assistance by “significant classes” without further specification. Paragraph 2.1.60

encourages the disclosure of external assistance by significant classes. Paragraph 2.1.61 includes a description of some such classes.

7. The proposal to require disclosure of the balance of undrawn external assistance loans and grants (paragraph 1.9.16), and encourage disclosure of changes therein during the period (paragraph 2.1.65(c)).
8. Whether the disclosure of the terms and conditions of external assistance agreements that determine or effect access to, or limit the use of, external assistance which is currently encouraged (paragraph 2.1.69), should be reclassified as a required disclosure.
9. Whether it is appropriate to encourage disclosure of the value of external assistance received in the form of non-cash goods and services (paragraph 2.1.85) and, if an entity elects to make such disclosure, to require disclosure of the basis on which that value was determined (paragraph 1.9.18).
10. Whether the transitional provisions in paragraphs 1.9.26 and 1.9.27 are appropriate:
 - (a) Paragraph 1.9.26 provides for a transitional period of two years for disclosure of the balance of undrawn external assistance; and
 - (b) Paragraph 1.9.27 provides an exemption from the requirement to disclose comparative figures during the first year of application of the requirements relating to external assistance.

The IPSASB would welcome comments on whether other requirements of this Standard should also be subject to transitional provisions.

11. Whether there are additional disclosures that have not been dealt with and should be required or should be encouraged.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

Financial Reporting Under the Cash Basis of Accounting

Structure of the Cash Basis IPSAS

The Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” comprises two parts:

- Part 1 is mandatory. It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting. It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with a number of specific reporting issues. The requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the International Public Sector Accounting Standard, “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis IPSAS).
- Part 2 is not mandatory. It identifies additional accounting disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements.

**INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARD**

**FINANCIAL REPORTING UNDER THE CASH BASIS OF
ACCOUNTING – DISCLOSURE REQUIREMENTS FOR
RECIPIENTS OF EXTERNAL ASSISTANCE**

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Basis for Conclusions

Introduction to the Proposed Amendments to the Cash Basis IPSAS

IN1. This Exposure Draft proposes amendments to the Cash Basis IPSAS “Financial Reporting Under the Cash Basis of Accounting” (the Cash Basis IPSAS). Therefore, it should be read in conjunction with the Cash Basis IPSAS. It requires certain disclosures about external assistance and encourages other disclosures. The required and encouraged disclosures are additional to those specified in the Cash Basis IPSAS.

Need for the amendments to the Cash Basis IPSAS

IN2. Many entities which prepare financial statements in accordance with the cash basis of financial reporting are recipients of external assistance. However, the Cash Basis IPSAS does not currently provide guidance on the disclosures that should be made by recipients of external assistance.

IN3. The required and encouraged disclosures proposed in this Exposure Draft will provide needed guidance to preparers of cash basis financial statements and will increase the comparability and usefulness of those financial statements to users.

Applicability of the IPSAS

IN4. The proposed required and encouraged disclosures apply to all entities that are recipients of external assistance and prepare and present their general purpose financial statements under the cash basis of accounting as defined in the Cash Basis IPSAS. The Cash Basis IPSAS applies to all public sector entities that apply the cash basis of accounting, other than Government Business Enterprises (GBEs).

IN5. The Preface to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) explains that IFRSs are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are profit-oriented entities. Accordingly, they are required to comply with IFRSs.

Disclosure

IN6. This Exposure Draft requires certain disclosures about external assistance during the period, including the amount of external assistance:

- Received in cash or paid by third parties to settle obligations of the recipient;
- Received as loans and as grants; and
- That has not yet been drawn down and the amount rescheduled or cancelled.

It also requires disclosure of significant terms and conditions that have not been complied with and have resulted in cancellation of any external assistance.

IN7. Part 2 of this Exposure Draft also encourages, but does not require, a range of other disclosures including disclosure of the significant classes of external assistance received during the period, the value of goods and services received in-kind, terms and conditions that govern the draw down or may otherwise limit access to external assistance, and the identity of each provider of external assistance and the amount of assistance provided.

IN8. The Cash Basis IPSAS requires that when an entity elects to include in its financial statements any disclosures encouraged by Part 2 of the Cash Basis IPSAS, those disclosures are to satisfy the qualitative characteristics of financial reporting as specified in Appendix 4 of the Cash Basis IPSAS. The Cash Basis IPSAS also requires that notes to the financial statements of an entity describe the specific accounting policies adopted for significant transactions and events and which are necessary for a proper understanding of the financial statements. Therefore, where an entity elects to include in its financial statements any disclosures encouraged by this Exposure Draft, those disclosures are to comply with the accounting policy and explanatory notes requirements of the Cash Basis IPSAS.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD

STRUCTURE OF THE PROPOSED AMENDMENTS TO THE CASH BASIS IPSAS

DISCLOSURE REQUIREMENTS FOR RECIPIENTS OF EXTERNAL ASSISTANCE

Part 1: Requirements

Part 1 of this Exposure Draft sets out the proposed requirements for disclosure of information about external assistance by recipients that report under the Cash Basis IPSAS “Financial Reporting Under The Cash Basis of Accounting”.

The standards, which have been set in bold type, should be read in the context of the commentary paragraphs in this Exposure Draft, which are in plain type, and in the context of the “Preface to International Public Sector Accounting Standards”. International Public Sector Accounting Standards are not intended to apply to immaterial items.

Part 2: Encouragements

Part 2 of this Exposure Draft sets out disclosures that recipients of external assistance are encouraged, but not required, to make.

Disclosure Requirements for Recipients of External Assistance

Objective

This Exposure Draft proposes amendments to the Cash Basis IPSAS, “Financial Reporting Under The Cash Basis of Accounting” to require certain disclosures about external assistance and to encourage other disclosures. The term “this Standard” is used in this Exposure Draft to mean amendments to the Cash Basis IPSAS. It is not proposed to issue a separate Cash Basis IPSAS on disclosure requirements for recipients of external assistance.

Scope

These amendments to the Cash Basis IPSAS apply to all entities that are recipients of external assistance and prepare and present their general purpose financial statements in accordance with the Cash Basis IPSAS, “Financial Reporting Under The Cash Basis of Accounting”.

Amendments to the Cash Basis IPSAS

Part 1 of the Cash Basis IPSAS will be amended to include a new section, “1.9 Recipients of External Assistance” as presented in paragraphs 1.9.1 to 1.9.31. Appendix 1 which accompanies Part 1 will also be amended as outlined.

Part 2 of the Cash Basis IPSAS will be amended to include the additional encouragements presented in paragraphs 2.1.60 to 2.1.88. Appendix 2 which accompanies Part 2 will be amended as outlined. Appendix 6 “Rescheduled or Cancelled Debt” will be added.

Part 1 - Requirements

1.9 Recipients of External Assistance

Definitions

1.9.1 The following terms are used in this Standard with the meaning specified:

Assigned External Assistance means any external assistance, including external assistance grants, technical assistance, guarantees or other assistance, received by an entity that is assigned by the recipient to another entity.

Bilateral External Assistance Agencies are agencies established under national law, regulation or other authority of a nation for the purpose of, or including the purpose of, providing some or all of that nation's external assistance.

External Assistance means all official resources which the recipient can use or otherwise benefit from in pursuit of its objectives.

Multilateral External Assistance Agencies are all agencies established under international agreement or treaty for the purpose of, or including the purpose of, providing external assistance.

Non-Government Organizations (NGOs) are all foreign or national agencies established independent of control by any government for the purpose of providing assistance to government(s), government agencies or to individuals.

Official Resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed under a binding agreement by multilateral external assistance agencies or by governments or government agencies, including bilateral external assistance agencies, at their own risk and responsibility.

Re-Lent External Assistance Loans means external assistance loans received by an entity that are lent by the recipient to another entity or to a government business enterprise.

- 1.9.2 Different organizations may use different terminology for external assistance or classes of external assistance. For example, some organizations may use the term external aid, or aid rather than external assistance. In these cases, the different terminology is unlikely to cause confusion. However, in other cases, the terminology may be substantially different. In these cases, preparers, auditors and users of general purpose financial statements will need to consider the substance of the definitions rather than just the terminology in determining whether the requirements of this Standard apply.

External Assistance Agreements

- 1.9.3 Governments seeking particular forms of external assistance may participate in formal meetings or rounds of meetings with donor organizations. For example, governments seeking development assistance from multilateral and bilateral external assistance agencies usually participate in an annual meeting to discuss the government's macroeconomic plans and its development assistance needs. Similarly, separate meetings may be held to discuss emergency assistance needs. Some emergency situations are prolonged in nature, such as the effects of drought associated with desertification, and the need for emergency assistance may continue for a number of years. In such cases, the annual development assistance meeting may be expanded to include the country's emergency assistance needs. Such meetings usually conclude with an announcement of the total assistance pledged by the agencies, together with a breakdown of the amount of assistance pledged by each agency. Statements of intent or pledges made at these meetings are not binding on either the government or the external assistance agencies. Separate meetings between the government and individual external assistance agencies may result in specific written agreements covering development or emergency assistance loans or grants that will be available - provided any restrictions on access to the funds are met, and agreed conditions or covenants are adhered to by the entity.
- 1.9.4 External assistance may also include trade finance, military assistance, balance of payments and other forms of assistance. Trade finance and military assistance normally result from direct bilateral discussions and balance of payments assistance from a country inviting external assistance agencies to participate in a program to address the country's balance of payment concerns. Initial discussions may also result in statements of intent or pledges which are not binding on the

government or the external assistance agency. Subsequent written agreements may result in assistance loans or grants that will be available provided restrictions on access to the funds, if any, are met and agreed conditions or covenants are adhered to by the entity.

- 1.9.5 External assistance agreements usually provide for the entity to either:
- (a) Draw down in cash the full proceeds of the loan or grant or a tranche of the loan or grant;
 - (b) Seek reimbursement(s) for qualifying payments made by the entity to a third party settling in cash an obligation(s) of the entity, as defined by the loan or grant agreement; or
 - (c) Request the external assistance agency to make payments directly to a third party settling in cash an obligation(s) of the recipient entity, as defined by the loan or grant agreement. Payments by a provider of external assistance to a third party may include payments to an NGO settling in cash an obligation of the recipient entity for goods or services provided or to be provided by the NGO.

External assistance agreements may also include provision of goods or services in-kind to the recipient.

External Assistance Received

- 1.9.6 The entity shall disclose separately on the face of the Statement of Cash Receipts and Payments, total external assistance received in cash during the period.**
- 1.9.7 The entity shall disclose separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements, total external assistance paid by third parties during the period to directly settle obligations of the entity or purchase goods and services on behalf of the entity showing separately:**
- (a) Total payments made by third parties which are part of the economic entity to which the reporting entity belongs; and**
 - (b) Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs.**

These disclosures shall only be made when, during the reporting period, the entity has been formally advised by the third party or the recipient that such payment has been made, or has otherwise verified the payment.

1.9.8 Where external assistance is received from more than one provider, the significant classes of providers of assistance shall be disclosed separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.

1.9.9 Where external assistance is received in the form of loans and grants, the total amount received during the period as loans and the total amount received as grants shall be shown separately, either on the face of the Statement of Cash Receipts and Payments or in the notes to the financial statements.

1.9.10 External assistance may be provided directly to the reporting entity in the form of cash. Alternatively, a third party may provide external assistance by settling an obligation of the reporting entity or purchasing goods and services for the benefit of the entity. In some cases, the third party may be part of the economic entity to which the reporting entity belongs – this will occur where, for example:

- (a) A government manages the expenditure of its individual departments and other entities through a centralized treasury function or a “single account” arrangement, and the treasury or other central agency makes payments on behalf of those departments and entities, after appropriate authorization and documentation from the department; or
- (b) In those jurisdictions where government departments or other entities are established with their own bank accounts, control certain cash inflows and outflows and cash balances and, in accordance with government directions or instructions, are required to settle certain obligations of another department or entity, or to purchase certain goods or services on behalf of another department or entity.

In other cases, the third party may not be part of the economic entity - this will occur where, for example:

- (a) An aid agency makes a debt repayment to a regional development bank on behalf of a government agency, or pays a construction

company directly for building a road for a particular government rather than providing the funds directly to the government itself; or

- (b) A national government funds the operation of a health or education program of an independent provincial or municipal government by directly paying service providers and acquiring on behalf of the other government the necessary supplies during the period.

- 1.9.11 Disclosure of the amount of external assistance received in the form of cash and in the form of third party payments made on behalf of the entity will indicate the extent to which the operations of the entity are funded from taxes and/or internal sources, or are dependent upon external assistance. In some cases, as at reporting date an entity may not be aware that payments have been made on its behalf by third parties during the reporting period. This may occur where the entity has not been formally advised of the third party payment or cannot otherwise verify that an expected payment has occurred. Consistent with the requirements of paragraph 1.3.24 of the Cash Basis IPSAS, external assistance paid by third parties should only be disclosed when during the reporting period the entity has been formally advised that such payments have been made or otherwise verifies their occurrence. Disclosure of the significant classes of external assistance is also encouraged, but not required (see paragraph 2.1.60).
- 1.9.12 Disclosure of the significant classes of providers of assistance, such as multilateral donors, bilateral donors, international assistance organizations or national assistance organizations will identify the extent of the entity's dependence on particular classes of providers and will be relevant to any assessment of the sustainability of the assistance. This Standard does not require the disclosure of the identity of each provider of assistance or the amount of assistance each provides. However, such disclosure is encouraged (see paragraph 2.1.63).
- 1.9.13 External assistance is often denominated in a currency other than the reporting currency of the entity. Cash receipts, or payments made by third parties on behalf of the entity arising from transactions in a foreign currency, will be recorded or reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the receipts or payments in accordance with paragraph 1.7.2 of the Cash Basis IPSAS.

- 1.9.14 National governments usually retain the exclusive right to enter into external assistance agreements with multilateral or bilateral external assistance agencies. In many of these cases, the project or activity is implemented by another entity. The national government may re-lend or assign the funds received to the other entity. The terms and conditions of the re-lent or assigned funds may be the same as received from the external assistance agency or may be harder or softer than initially received. In some cases, a small fee or interest spread is charged to cover the national government's administrative costs. An entity which enters into an external assistance agreement and passes the benefits as well as the terms and conditions of the agreement through to another entity by way of a subsidiary agreement will recognize or report the external assistance as it is received, and record payments to the second entity in accordance with its normal classification of payments adopted in the financial statements.
- 1.9.15 Where the initial recipient of a loan or grant passes the proceeds and the terms and conditions of the loan or grant through to another entity, the initial entity may simply be administering the loan or grant on behalf of the end user. Netting of transactions where the terms and conditions are substantially the same may be appropriate in the financial statements of the administrator, in accordance with the provisions of paragraph 1.3.13 of the Cash Basis IPSAS.

Undrawn External Assistance

- 1.9.16 **The entity shall disclose separately in the notes to the financial statements the balance of undrawn external assistance loans and grants available to fund future operations showing separately:**
- (a) Total external assistance loans; and**
 - (b) Total external assistance grants.**
- 1.9.17 The amount of external assistance currently committed under a written agreement(s) but not yet drawn may be significant. Disclosure of the amount of the undrawn balances will indicate the extent to which the entity may avail itself of external assistance loans and grants to sustain its operations in the future. This may represent a source of confidence for the readers of the entity's financial statements that funds will be available to support its future operations. Where such undrawn balances are denominated in a foreign currency, opening and closing balances will be determined by applying to the foreign currency

amount the exchange rate on the respective dates in accordance with the provisions of paragraph 1.7.2 of the Cash Basis IPSAS.

Receipt of Goods or Services In-kind

- 1.9.18 **Where an entity elects to disclose the value of external assistance received in the form of goods or services, it shall also disclose the basis on which that value is determined.**
- 1.9.19 Paragraph 2.1.85 of this Standard encourages an entity to disclose separately in the notes to the financial statements, the value of external assistance received in the form of goods or services. Where an entity elects to make such disclosures, it is required to disclose the basis on which that value is determined. Such disclosure will enable users to assess whether, for example, the value is determined by reference to donor valuation, fair value determined by reference to prices in the world or domestic markets, by management assessment or on another basis.

Disclosure of Debt Rescheduled or Cancelled

- 1.9.20 **An entity shall disclose in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled, together with any related terms and conditions.**
- 1.9.21 An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt. Disclosure of external assistance debt rescheduled or cancelled, together with any related terms and conditions, will alert users of the financial statements that such renegotiation has occurred. This will provide useful input to assessments of financial condition of the entity and changes therein.

Disclosure of Non Compliance with Significant Terms and Conditions

- 1.9.22 **An entity shall disclose in notes to the financial statements significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, when non compliance resulted in cancellation of the assistance.**
- 1.9.23 External assistance agreements will usually include terms and conditions that must be complied with for ongoing access to assistance funds as well as some procedural terms and conditions. Consequences

of non compliance stated in the agreement may include cessation of rights to draw funds under the affected agreement until the default is corrected.

- 1.9.24 Identifying significant terms and conditions which have not been complied with and which have resulted in cancellation of the assistance will enhance the financial accountability and the transparency of the financial statements. It will enable readers to identify the instances of non compliance that have adversely affected the funds that are available to support the entity's future operations, and will provide input to assessments of whether re-establishment of compliance with the agreement may occur in the future. Disclosure of non compliance with significant terms and conditions in other cases is also encouraged, but not required (see paragraph 2.1.76).

Effective Date and Transitional Provisions

- 1.9.25 Paragraphs 1.9.1 to 1.9.24 of this International Public Sector Accounting Standard become effective for annual financial statements covering periods beginning on or after 1 January 200X.**
- 1.9.26 Entities are not required to disclose separately in the notes to the financial statements the balance of undrawn external assistance for a period of two years from the date of first adoption of this Standard.**
- 1.9.27 Entities are not required to disclose comparative figures for amounts disclosed in accordance with paragraphs 1.9.1 to 1.9.24 in the first year of application of paragraphs 1.9.1 to 1.9.24 of this Standard.**
- 1.9.28 When an entity applies the transitional provisions in paragraph 1.9.26 and 1.9.27, it shall disclose that it has done so.**
- 1.9.29 In the first year of adoption of the requirements in this Standard relating to the disclosures about external assistance, an entity may not have readily available, or reasonable access to, the information necessary to enable it to satisfy the requirement to disclose comparative information. It may also not have the information necessary to enable it to disclose the closing balance of undrawn external assistance as required by paragraph 1.9.16. Paragraph 1.9.26 provides relief from the

requirements of paragraph 1.9.16 for a period of two years from initial application of this Standard.

- 1.9.30 Paragraph 1.4.16 of the Cash Basis IPSAS provides relief from the requirement to disclose comparative information for the previous period on initial application of the Standard. Some entities may have adopted the Cash Basis IPSAS prior to its amendment to include the requirements relating to disclosure of information by recipients of external assistance as specified in paragraphs 1.9.1 to 1.9.24. Paragraph 1.9.27 provides relief from the requirement to disclose comparative information about external assistance as specified in 1.9.1 to 1.9.24 in this Standard in the first year of application of those paragraphs.
- 1.9.31 To ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 1.9.28 requires that entities that make use of these transitional provisions disclose that they have done so.

APPENDIX 1: Illustration of the Disclosure of External Assistance by a Government

The following amendments are proposed to “Appendix 1: Illustration of the requirements of Part 1 of the Standard” (proposed amendments are marked-up).

This Appendix is illustrative only and does not form part of the Standard. It illustrates an extract of a Statement of Receipts and Payments and relevant note disclosures for a government that has received external assistance loans and grants during the current and preceding periods. Its purpose is to assist in clarifying the meaning of the standards by illustrating their application in the preparation and presentation of general purpose financial statements under the cash basis of accounting for a:

- (a) Government *which is a recipient of external assistance;*
- (b) Governmental Entity which controls its own bank account *and is not a recipient of external assistance;* and
- (c) Governmental Department which operates under a “single account” system such that a central entity administers cash receipts and payment on behalf of the Department, *and is not a recipient of external assistance.*

The following amendments are proposed to the Appendices illustrated in the Cash Basis IPSAS.

Appendix 1A – A Government will be amended to:

- *Remove the following in the Statement Of Cash Receipts And Payments:*

Grants and Aid

~~—International Agencies~~

~~—Other Grants and Aid~~

Borrowings

Insert the following in the Statement of Cash Receipts and Payments in their place:

External Assistance

Multilateral Agencies

Bilateral Agencies

Other Grants and Aid

Other Borrowings

- *Amend the notes to the Financial Statements to:*
insert a new note 3 External Assistance;
amend the numbering of the other notes accordingly; and
amend the note headed “borrowings” to “other borrowings”.

(Please note: these amendments are not identified by “mark-ups” in the attached illustration.)

External Assistance Received by a Government

(Paragraphs 1.9.6, 1.9.7 and 1.9.8)

CONSOLIDATED FINANCIAL STATEMENTS FOR GOVERNMENT A
CONSOLIDATED STATEMENT OF CASH RECEIPTS AND PAYMENTS FOR YEAR
ENDED 31 DECEMBER 200X
(RECEIPTS ONLY)

(in thousands of currency units)	Note	2000X		200X-1	
		Cash Receipts	Payments by third parties	Cash Receipts	Payments by third parties
RECEIPTS					
<i>Taxation</i>					
Income tax	X	-	-	X	-
Value-added tax	X	-	-	X	-
Property tax	X	-	-	X	-
Other taxes	X	-	-	X	-
		_____	_____	_____	_____
				X	
		_____	_____	_____	_____
External Assistance	3				
Multilateral Agencies	3	X	X		
Bilateral Agencies	3	X	X		
		_____	_____	_____	_____
Other Grants					
Other Borrowings		X	X		
		_____	_____	_____	_____
<i>Capital Receipts</i>					
Proceeds from disposal of plant and equipment		X		X	
<i>Trading Activities</i>					
Receipts from trading activities		X		X	
<i>Other receipts</i>					
		X		X	
		_____	_____	_____	_____
Total receipts		X	X	X	X

(Note: No amendments are proposed to the illustration of "Payments" in the Statement of Cash Receipts and Payments in Appendix 1(a))

Note 3: External Assistance

(Paragraph 1.9.9)

External assistance was received in the form of loans and grants from Multilateral and Bilateral Donor Agencies under agreements specifying the purposes for which the assistance will be utilized.

	<u>200X</u>	<u>200X-1</u>
	Total	Total
<u>Borrowed Funds</u>		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
<u>Grant Funds</u>		
Multilateral Agencies	X	X
Bilateral Agencies	X	X
Total	X	X
Total External Assistance	X	X

Note 3: Non Compliance with significant terms and conditions and rescheduled and cancelled debt

(Paragraphs 1.9.20 and 1.9.22)

There have been no instances of non compliance with terms and conditions which have resulted in cancellation of external assistance.

External assistance loans of X domestic currency units were cancelled during the reporting period. The cancellation resulted from over estimation of the cost of specified development projects.

Note 3: Undrawn External Assistance

(Paragraph 1.9.16)

Undrawn external assistance – Loans and Grants

Undrawn external assistance loans and grants consist of the amount of external assistance loans and grants agreed with external assistance agencies that have not been utilized at the close of the fiscal year.

	Loans 200X	Grants 200X	Loans 200X-1	Grants 200X-1
Closing balance	X	X	X	X
Closing balance by currency				
US Dollar	-	X	X	X
Euro	X	X	X	X
Yen	X	X	X	X
Other	X	X	X	X
Total	X	X	X	X

PART 2: Encouraged Additional Disclosures

This part of the Exposure Draft proposes amendments to Part 2 of the Cash Basis IPSAS. It sets out encouraged additional disclosures for recipients of external assistance. The disclosures proposed in this section are not mandatory.

Part 2 should be read together with Part 1 of this Exposure Draft, which sets out the proposed requirements for reporting under the cash basis of accounting. The encouraged disclosures, which have been set in italics, should be read in the context of the commentary paragraphs in this part of the Exposure Draft, which are in plain type.

Financial Reporting under the Cash Basis of Accounting

PART 2: Encouraged Additional Disclosures

Recipients of External Assistance

- 2.1.60 *An entity is encouraged to disclose by significant class in notes to the financial statements, the purposes for which external assistance was received during the reporting period, showing separately amounts provided by way of loans and grants.*
- 2.1.61 An entity may receive external assistance for many purposes including assistance to support its:
- (a) Economic development or welfare objectives, often termed development assistance;
 - (b) Emergency relief objectives, often termed emergency assistance;
 - (c) Balance of payments position or to defend its currency exchange rate, often termed balance of payments assistance;
 - (d) Military and/or defense objectives, often termed military assistance; and
 - (e) Trading activities, including export credits or loans offered by export/import banks or other government agencies, often termed trade finance.
- 2.1.62 Part 1 of this Standard requires disclosure of the total amount of external assistance received during the reporting period. Disclosure of the significant classes of external assistance received, and whether that assistance was provided by way of loan or grant, will enable users to determine the purposes for which assistance was provided during the period, the amounts thereof and whether the entity has an obligation to repay the assistance provided at some time in the future.
- 2.1.63 *An entity is encouraged to identify each provider of external assistance during the reporting period and the amount provided, showing separately amounts provided by way of loans and grants.*

- 2.1.64 Disclosure of each provider of external assistance and the amount provided by way of loan and grant will indicate the extent of diversification of sources of assistance. This will assist readers of the financial statements to determine whether the entity is dependent on particular agencies for assistance, the extent of that dependency and whether the assistance is by way of a grant or a loan which will need to be repaid in the future.
- 2.1.65 *An entity is encouraged to disclose by significant class in notes to the financial statements:*
- (a) Providers of the loan assistance and grant assistance that is undrawn at reporting date;*
 - (b) The purposes for which the undrawn loan assistance and undrawn grant assistance may be used; and*
 - (c) Changes in the amount of undrawn loan assistance and undrawn grant assistance during the period.*
- 2.1.66 Undrawn external assistance balances are required to be disclosed by Part 1 of this Standard. The disclosures encouraged by paragraph 2.1.65 will enable readers of the financial statements to determine the extent to which assistance is currently available for particular purposes or activities in the future, the class of providers of that assistance and whether the undrawn loan and grant assistance declined or increased during the period.
- 2.1.67 As is appropriate for the reporting entity, the disclosures could usefully identify such matters as the opening balance of undrawn loans and grants, the amount of new loans and new grants approved or otherwise made available during the period, the total amount of loans and grants drawn or utilized during the period, the total amounts of loans and grants cancelled during the period, and the closing balance of undrawn loans and grants. Such disclosures will assist users in identifying not only the amount of the change in undrawn balances, but also the components of that change. This will enable users to determine whether, for example, assistance is being drawn and replaced and the composition of the change.
- 2.1.68 Where such disclosures are made, external assistance denominated in a foreign currency will be reported in the entity's reporting currency by applying to the foreign currency amount the exchange rate on the date

of each applicable transaction, consistent with the requirements of Part 1 of this Standard.

- 2.1.69 *An entity is encouraged to disclose in notes to the financial statements the terms and conditions of external assistance agreements that determine or effect access to, or limit the use of, external assistance.*
- 2.1.70 Some external assistance agreements limit or specifically define the use or purpose for which the external assistance may be used, or limit the sources from which goods or services funded under the external assistance may be purchased. This type of external assistance term or condition may specify that the funds are available only to purchase specific inputs for the construction of specified facilities at a specified location or that the goods or services purchased under the external assistance agreement must originate from a specified country or countries.
- 2.1.71 Some external assistance may be released on specific dates, or may be released upon the entity:
- (a) Undertaking actions specified in an external assistance agreement, such as implementing specific policy changes; or
 - (b) Achieving ongoing performance targets, such as budget deficit targets or other broad economic objectives, or establishing a financial sector asset recovery or management agency.
- 2.1.72 Disclosure of terms and conditions that determine or affect access to external assistance will indicate the extent to which external assistance is time bound and/or is dependent upon the entity taking certain actions and achieving certain performance objectives, and what those actions and performance objectives are.
- 2.1.73 *An entity is encouraged to disclose in notes to the financial statements:*
- (a) *The outstanding balance of any external assistance loans for which performance has been guaranteed by third parties, any terms and conditions related to those loans, and any additional terms and conditions arising from the guarantee; and*
 - (b) *The amount and terms and conditions of grants that have been guaranteed by a third party or parties, and any additional terms and conditions arising from the guarantee.*
- 2.1.74 External assistance may consist of, or include, a guarantee of the balance of a loan borrowed by an entity and payment of interest

thereon, in total or up to a specified amount. It may also include a guarantee of performance of some action under the loan, such as setting tariffs according to an agreed formula. Grants may also be subject to terms and conditions which are guaranteed by third parties.

- 2.1.75 Disclosure of the amounts of loans and grants guaranteed by third parties will indicate the extent of support from another entity to obtain the benefits of the external assistance agreement. This will provide readers of the financial statements with a more comprehensive overview of the extent to which the entity is dependent on external assistance to access financial resources. Disclosure of the terms and conditions of loans and grants that have been guaranteed as encouraged by paragraph 2.1.73 will also indicate the additional performance requirements or conditions that arise as a consequence of the guarantee.
- 2.1.76 *An entity is encouraged to disclose in notes to the financial statements other significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, together with the consequence of the non compliance.*
- 2.1.77 Paragraph 1.9.22 of Part 1 of this Standard requires the disclosure of significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance. External assistance agreements may also include other significant terms and conditions that must be complied with for access to external assistance funds in the future, as well as some procedural terms and conditions. Consequences of non compliance with such terms and conditions may include a reduction in the amount of funds that may be drawn in the future until the default is corrected, an increase in the interest rate charged on loan funds, or repayment of a portion of the funds already drawn down. Default may occur during the draw down period for the loan or grant or during the life of the agreement. Guarantee agreements usually carry cross default clauses which trigger a default under the guaranteed loan if the guarantee agreement is violated.
- 2.1.78 Identifying these other significant terms and conditions which have not been complied with is likely to require professional judgment. That judgment will be exercised in the context of the entity's particular circumstances and by reference to the qualitative characteristics of financial statements. These terms and conditions are likely to be those where non compliance requires the entity to repay material amounts of assistance already drawn down or reduces the ability of the entity to access external assistance in the future.

- 2.1.79 Disclosure of these other significant terms and conditions that have not been complied with, and the consequences thereof, will assist the readers of the financial statements to determine such matters as whether non compliance is likely to affect the funds that will be available to support the entity's future operations, and what actions need to be taken to re-establish compliance with the agreement.
- 2.1.80 *An entity is encouraged to disclose in the notes to the financial statements, a summary of the repayment terms and conditions of outstanding external assistance debt.*
- 2.1.81 External assistance debt agreements will include terms and conditions relating to such matters as the grace period, interest rate, current debt service payments, future debt service payments, remaining term of the loan, currency of debt service payments, principal repayment requirements (where repayment of the principal is deferred until the end of the loan term, or some other future date), and any other significant repayment terms.
- 2.1.82 Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current and additional operations. Disclosure of repayment terms and conditions of outstanding external assistance debt will enable readers of the financial statements to determine when debt service payments (principal and interest or service charges) will commence, and the amount of principal and interest or service charge payable.
- 2.1.83 Future debt service payments for outstanding external assistance debt may be denominated in a foreign currency. Where disclosures of future debt service payments are made, the entity is encouraged to report them in the entity's reporting currency by applying to the foreign currency amount of those payments the closing rate. This will indicate the nature of the foreign exchange risk, if any, associated with the future repayment of external assistance.
- 2.1.84 Disclosure of information about repayment terms and conditions may require the estimation of, for example, the interest rate to be applied to variable rate debt. The estimated interest rate will usually be determined by reference to applicable interest rates at the closing date. In accordance with the requirements of paragraph 1.3.30 to 1.3.37 of Part 1 of the Cash Basis IPSAS, when an entity elects to make disclosures which involve estimates, accounting policies selected and

applied in developing such estimates will be disclosed where necessary for a proper understanding of the financial statements.

- 2.1.85 *An entity is encouraged to disclose separately in the notes to the financial statements the value of external assistance received in the form of goods or services.*
- 2.1.86 Significant resources may be received under external assistance agreements in the form of goods or services in-kind. This will occur when new or used goods such as vehicles, computers or other equipment is transferred to the entity under an external assistance agreement. It will also occur when food aid is provided to a government for distribution to its citizens under an external assistance agreement.
- 2.1.87 Disclosure of the value of external assistance received as goods and services in-kind will assist readers of the financial statements to better understand the full extent of external assistance received during the reporting period.
- 2.1.88 This Standard does not specify the basis on which the value of the goods or services is to be determined. Therefore, their value may be determined as the depreciated historical cost at the time the assets are transferred to the recipient or the price paid for the food by the external assistance agency. It may also be determined on the basis of an assessment of the value by management of the transferor, or the recipient, or by a third party. Where the value of external assistance in the form of goods or services is disclosed, Part 1 of this Standard requires the disclosure of the basis on which that value is determined. Where such is described as fair value it will conform with the definition of fair value, being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**APPENDIX 2: Illustration of Certain Disclosures Encouraged
in Part 2 of the Standard**

This Appendix is illustrative only. The purpose of the Appendix is to illustrate the application of the encouragements and to assist in clarifying their meaning.

The following illustrative disclosures are additional to those already included in Appendix 2 of the Cash Basis IPSAS. They will be added to Appendix 2.

Appendix 6 will be added to the Cash Basis IPSAS.

Appendix 3, 4 and 5 of the Cash Basis IPSAS remain unchanged.

Extract From Notes to the Financial Statements

Classes of External Assistance (*Paragraph 2.1.60 and 2.1.65*)

External assistance was received from Multilateral and Bilateral External Assistance Agencies under agreements specifying that the assistance would be utilized for the following purposes:

	Development Assistance		Emergency Assistance		Trade Finance		Other	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
	Borrowed Funds	X	X	-	-	X	-	X
Grant Funds	X	-	X	X	-	-	X	X
Total	X	X	X	X	X	-	X	X

	Agency 1		Agency 2		Agency 3		Agency 4	
	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
	Loan Funds	X	X	-	-	X	-	X
Grant Funds	X	-	X	X	-	X	X	X
Total	X	X	X	X	X	X	X	X

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING —
ENCOURAGED ADDITIONAL DISCLOSURES

Undrawn External Assistance (*Paragraph 2.1.65*)

Undrawn external assistance loans and grants consist of amounts agreed with external assistance agencies that have not been utilized at fiscal year end. External assistance loans cancelled resulted from overestimation of the cost of development projects.

Opening balance	Development Assistance		Emergency Assistance		Trade Assistance		Other	
	200X	200X-1	200X	200X-1	200X	200X-1	200X	200X-1
Loans	X	X	-	-	X	X	-	-
Grants	X	X	X	X	-	-	-	-
Approved in period								
Loans	X	X	-	-	X	X	X	-
Grants	X	X	X	X	-	-	X	X
Total available	X	X	X	X	X	X	X	X
Loans drawn down	X	X	-	-	X	X	X	-
Grants drawn down	X	X	X	X	-	-	X	X
Loans cancelled	(X)	(X)	-	-	-	-	-	-
Grants cancelled	-	-	-	-	-	-	-	-
Exchange difference	X	X	-	-	X	X	-	-
Closing balance	X	X	-	-	X	X	-	-

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING —
ENCOURAGED ADDITIONAL DISCLOSURES

Closing balance	Development Assistance		Emergency Assistance		Trade Assistance		Other		
	By currency	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>	<u>200X</u>	<u>200X-1</u>
US Dollar	X	X	X	X	X	X	X	X	X
Euro	X	X	X	X	X	X	X	X	X
Yen	X	X	X	X	X	X	X	-	-
Other	X	X	X	X	-	-	-	-	-
Total	X	X	X	X	X	X	X	X	X
By providers									
Loans									
Multilateral agencies	X	X	X	X	X	X	X	X	X
Bilateral agencies	X	X	X	X	X	X	X	X	X
Grants									
Multilateral agencies	X	X	X	X	X	X	X	X	X
Bilateral agencies	X	X	X	X	X	X	X	X	X

Significant terms and conditions (*Paragraph 2.1.69*)

General Restrictions

The balance of commitments for, and undrawn balances of, external assistance is subject to, or restricted by, prior performance of specific agreed actions or the maintenance of agreed economic or financial performance levels by the Government or the relevant project implementation agency.

The Government has prepared an economic development plan for receipt of balance of payments assistance. The plan includes a poverty reduction strategy which is supported by the donor community. The Government and the donors have agreed targets for reducing the fiscal deficit to sustainable levels within five years through a program of tax reforms, sale of certain state owned enterprises and by focusing expenditures within the poverty reduction strategy. Fiscal expenditures will be increased for the agricultural, health, education and trade support sectors. The Government and the donor community have agreed on methods to monitor progress to achieve agreed targets and have agreed to meet annually to review progress and to ensure continued donor financial support for the Government's economic development plan.

Loans and grants to support specific projects include financial performance targets for all electricity and water utilities to ensure adequate revenue to cover the cost of providing services, to properly maintain existing utility assets and to contribute to a program of asset replacement and renewal.

Procurement Restrictions

Certain development assistance received is subject to restrictions in regards to the nature of goods or services that may be purchased or the country in which the goods or services may be purchased. All multilateral development bank loans or grants are restricted in that (a) they prohibit the use of their funds for the purchase of military goods or services, luxury goods or environmentally damaging goods and (b) the purchase of goods or services must be from their respective member countries. Bilateral Agencies are either unrestricted or limit purchases of goods or services to the country providing the funds. All "Specific Purpose Loans or Grants" fund specifically defined projects and as such the procurement of goods and services is restricted to the agreed inputs for each project.

Non Compliance with significant terms and conditions (*Paragraph 2.1.76*)

The Government's expenditures in the education sector did not meet the investment target primarily due to construction delays caused by an earthquake. Expenditures were one percent below the target. Steps have been taken to

correct the under investment in the education sector and the Government and the relevant donors support the corrective actions planned. The Government has complied with all procurement regulations applicable under all outstanding external assistance loans and grants.

Guarantees (*Paragraph 2.1.73*)

Undrawn external assistance – Guarantees

Guarantees issued by the Government of YYYY covering undrawn commercial export financing at the end of 200X in the amount of US Dollars XXX (200X-1: US Dollars Nil) is not included in the above tables.

Repayment Terms and Conditions - Debt Service Obligations (*Paragraph 2.1.80*)

Development Assistance terms include grace periods which range from at least five years to a maximum of seven years. Interest rates include both fixed rates and variable rates. All development assistance debt are denominated in US Dollars. Interest rates on fixed rate loans, as of fiscal year ending 200X range from 5.25 percent to 6.75 percent with a weighted average of 5.95 percent. For the fiscal year ending 200X-1, they range from 5.25 percent to 6.70 with a weighted average of 5.92 percent. Interest rates on variable rate loans range from LIBOR plus 1 percent to LIBOR plus 1.25 percent with a weighted average at the end of fiscal year 200X of 7.35 percent and at the end of fiscal year 200X-1 of 7.27 percent. Some development assistance credits include a grace period of ten years and are interest free but a service charge of 0.75 percent applies.

Major features of trade assistance/finance debt are:

- Trade Assistance/Finance terms do not include grace periods;
- Interest rates include both fixed rates and variable rates;
- Fixed rates range from 7.3 percent to 8.2 percent for debt denominated in US Dollars, with a weighted average of 7.75 percent; 7.25 to 8.4 percent for debt denominated in Euros with a weighted average of 7.76 percent and 3.25 to 4.70 percent for debt denominated in Yen with a weighted average of 3.75 percent; and
- Variable interest rates range from 5.85 percent to 8.85 percent for debt denominated in US Dollars, with a weighted average of 6.80 percent; 5.80 percent to 8.70 percent for debt denominated in Euros, with a weighted average of 6.85 percent; 3.70 percent to 3.95 percent for debt denominated in Yen, with a weighted average of 3.82 percent.

Other Assistance does not include a grace period and is all denominated in US Dollars and includes a Poverty Reduction and Growth Facility with interest set at 0.5 percent and an Extended Fund Facility with interest set at 4.75 percent.

200X

**Outstanding Debt by Remaining
Grace Period Years**

	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Trade Finance	X	-	-	X
Other	X	-	-	X
Total	X	X	X	X

200X-1

**Outstanding Debt by Remaining
Grace Period Years**

	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Trade Finance	X	-	-	X
Other	X	-	-	X
Total	X	X	X	X

Development Assistance loans have repayment periods varying from 20 years to 25 years subsequent to the grace period with a weighted average for outstanding debt of 27.7 years including the grace period. In all cases, the debt service is based on a fixed payment of principal plus interest accrued. Development assistance credits have repayment periods of 30 years following the grace period with a weighted average for outstanding debt of 32.4 years including the grace period. Debt service is based on a fixed payment of principal plus a service fee.

Trade Assistance/Finance loans have repayment periods varying from 3 to 7 years with a weighted average of 4.7 years. Debt service is based on a fixed payment of principal plus interest accrued.

Other Assistance loans have repayment periods varying from 2 to 7 years with a weighted average of 4.9 years. Debt service is based on a fixed payment of principal plus interest accrued.

200X

Debt Service Payments Including Interest

	US				
	<u>Dollar</u>	<u>Euro</u>	<u>Yen</u>	<u>Other</u>	<u>Total</u>
Development Assistance	X	X	X	X	X
Trade Assistance/Finance	X	X	X	-	X
Other	X	X	-	-	X
Total	X	X	X	X	X

200X-1

Debt Service Payments Including Interest

	US				
	<u>Dollar</u>	<u>Euro</u>	<u>Yen</u>	<u>Other</u>	<u>Total</u>
Development Assistance	X	X	X	X	X
Trade Assistance/Finance	X	X	X	-	X
Other	X	X	-	-	X
Total	X	X	X	X	X

All debt service payments for subsequent years are based on a fixed payment of principal plus accrued interest. Interest payments or service charges are based on the outstanding principal of each loan or credit at the end of the current year, and for variable interest rate loans, at interest rates prevailing at that date. Debt service payments denominated in foreign currency have been determined by applying the closing rate of exchange on the reporting date of the financial statements.

200X + 1 and Subsequent Years

Debt Service Payments Including Interest

	US				
	<u>Dollar</u>	<u>Euro</u>	<u>Yen</u>	<u>Other</u>	<u>Total</u>
Development Assistance	X	X	X	X	X
Trade Finance	X	X	X	-	X
Other	X	X	-	-	X
Total	X	X	X	X	X

Receipt of Goods and Services In-Kind (*Paragraph 2.1.85 and 1.9.18*)

During 200X, a severe earthquake occurred in the ZZZ Region inflicting serious damage to government property and private property, and significant loss of life. Several nations donated specialized professionals and equipment to assist in locating and rescuing individuals trapped in the rubble. In addition, specialized medical teams trained in trauma treatment together with medical equipment, were flown into the region. Temporary shelter and food were also supplied. The value of goods and services received has been estimated at XX domestic currency units. The value of those specialized emergency assistance provided has been determined based on cost estimates provided by the bilateral aid agencies involved because local prices for equivalent goods or services were not available.

Fifty thousand tons of rice was received as food aid during the year. It has been valued at XX domestic currency units which represents the wholesale price of similar rice in domestic wholesale markets.

Goods in-kind received during the year, have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government. Goods and services-in-kind were received as part of the emergency assistance and are reflected in this note.

APPENDIX 6: Rescheduled or Cancelled Debt

This Appendix discusses the circumstances involved in rescheduling or cancellation of sovereign debt and the impact on the entity's financial statements.

The following terms are used in this Appendix with the meaning specified:

Highly Indebted Poor Countries (HIPC)s are countries which:

- (a) Are only eligible for highly concessional assistance such as from the World Bank's International Development Association (IDA) and the International Monetary Fund's (IMF's) Poverty Reduction and Growth Facility;
- (b) Face an unsustainable debt situation even after the full application of traditional debt relief mechanisms; and
- (c) Have a proven track record in implementing strategies focused on reducing poverty and building the foundation for sustainable economic growth.

HIPC Trust Fund has been established on the basis of contributions from participating multilateral creditors and bilateral donors.

A government experiencing difficulty in servicing its debt, including bilateral development assistance debt, may seek renegotiation of the terms of its sovereign debt under Paris Club arrangements. The Paris Club is not a legally established entity – it is an informal group of official creditors that seek to find coordinated and sustainable solutions to balance of payments difficulties experienced by debtor nations. Although each situation considered by Paris Club members is unique, and is considered on a case by case basis, the members have harmonized the circumstances under which they will agree to forgive, defer or reschedule debt and the amount of medium to long term debt that will be addressed.

Paris Club negotiations may respond to short term balance of payments difficulties by addressing a financing gap covering up to three years debt service payments, or may respond to long term balance of payments difficulties by addressing the remaining debt service requirements for debt existing at the time of the negotiations.

Rescheduling debt service payments for least developed countries may involve revised payment terms for sovereign commercial debt of up to 23 years (including up to 6 years grace during which only interest on the deferred

amount is paid) and up to 40 years for official development assistance (including a grace period of up to 16 years). Debt from multilateral agencies such as the International Monetary Fund (IMF), the World Bank or regional development banks is not eligible for Paris Club consideration.

Increasingly, debt cancellation is applied as part of the solution to addressing long term balance of payments issues. Under the negotiations described above, debt cancellation of up to 67% of the remaining debt service obligations may be considered. For the least developed and most indebted countries, the Paris Club will consider debt cancellation of up to 90% of remaining debt service obligations. HIPCs may also seek relief from debt service obligations to multilateral agencies through the HIPC Trust Fund. The proceeds of the HIPC Trust Fund are used to repay or purchase a portion of the debt owed to a multilateral creditor(s) and cancel such debt or to make a debt service payment(s) on behalf of the HIPC as it comes due.

While the Paris Club provides a structure and a harmonized approach to address a portion of a country's balance of payments difficulties, it does not provide an overarching agreement between its members and the creditor nation. Each agreement covered by Paris Club consideration must be individually amended to reflect changes in the terms and conditions of the loan. An overarching set of conditions is provided by reference in the revised agreements to adherence with the terms and conditions of an IMF loan. In the case of HIPCs the overarching conditionality is provided by a Poverty Reduction Strategy Plan supported by loans from both the IMF and the World Bank and, in some cases, other agencies.

Debt rescheduling or debt cancellation does not involve a cash receipt or a cash payment. However, the terms and conditions attached to the debt that has been rescheduled have changed. The notes to the financial statements of the entity involved should disclose the amount of external assistance debt rescheduled or cancelled, together with any renegotiated terms and conditions consistent with disclosure requirements specified in this Standard. This would include material additional terms and conditions resulting from, or in conjunction with, Paris Club negotiations or the HIPC initiative, such as obligations under an IMF or World Bank loan including a poverty reduction strategy plan. Rescheduling or cancellation of sovereign debt due to an immediate or anticipated inability to service the debt is a material event and should be disclosed in accordance with the requirements of this Standard.

This Standard also encourages disclosure in notes to the financial statements of significant terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with together with the consequence of the non compliance. Disclosure of the entity's inability to service its debt(s) and the principal terms of the rescheduling that arise as a consequence is consistent with this encouraged disclosure.

Repayments made on behalf of the entity by the HIPC Trust Fund should be reported as cash receipts and disclosed in a separate column disclosing third party payments in the Statement of Cash Receipts and Payments in accordance with the provisions of this Standard. A third party payment(s) of debt amortization obligations as part of debt relief is likely to be a material event and should be disclosed in accordance with the provisions of this Standard with a reference to the note describing the debt relief.

Further information regarding the Paris Club may be obtained from their website <http://www.clubdeparis.org/en/>.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments to the Cash Basis IPSAS.

The Need for this Standard

- BC1. Providers of external assistance, particularly development assistance, require recipients to follow accounting principles acceptable to them for the use of the funds provided. In many cases, the requirements of each of the providers will differ in some respects. In some cases, they require the recipient to follow accounting standards generally practiced in the provider country. This may include standards for the accrual basis of accounting even though the recipient's accounting system is on the cash basis of accounting. Consequently, the recipient may be required to maintain two sets of accounts, one for the provider of the assistance and a second utilizing national public sector accounting standards to meet domestic legal requirements and for submission to local authorities.
- BC2. Recipients of external assistance usually receive external assistance from a number of sources. Adhering to a number of different accounting practices and reporting requirements within a portfolio of projects imposes additional compliance costs on recipients. In many cases, those recipients have limited staff with the requisite skills. Consequently, timely submission of required financial statements is often delayed.
- BC3. The IPSASB is of the view that the preparation of financial statements in accordance with the requirements of an International Public Sector Accounting Standard (IPSAS) on external assistance provides the potential to:
- Increase the comparability and usefulness of the financial information to users of the statements; and
 - Reduce the costs that recipients of such assistance face in complying with the different reporting requirements that may be imposed on them by providers of assistance.

Focus on Cash Basis of Accounting

- BC4. The vast majority of recipients of external assistance utilize the cash basis of accounting. The required and encouraged disclosures in this proposed Standard have been developed to respond to the need for an international generally accepted accounting Standard for the disclosure of information by recipients which adopt the cash basis of accounting.
- BC5. Some entities that receive external assistance use the accrual basis of accounting, or are in the process of conversion to the accrual basis of accounting. The IPSASB is currently progressing a project on accounting for revenue from non-exchange transactions under the accrual basis of accounting. That project will deal with certain matters relevant to accounting for external assistance under the accrual basis of accounting. The IPSASB will consider whether additional requirements on accounting for, and/or disclosure of, external assistance by recipients is necessary as the non-exchange revenue and other key accrual accounting standards are developed, and in light of relevant issues that might be identified in the course of the development of this IPSAS.

Definition of External Assistance

- BC6. This project initially focused on the disclosure of information about development assistance. The Project Advisory Panel and other key constituents advocated that the scope of the project be widened to address all official external assistance, and require disclosure of significant components of external assistance. The IPSASB (then the Public Sector Committee - PSC) responded positively to that input and expanded the scope of the exposure draft to include all official external assistance.
- BC7. External assistance is defined as official resources originating from multilateral agencies or from governments or government agencies. In developing this definition, the IPSASB considered definitions widely used in practice including those of recipients, providers/donors and industry representative organizations. While there is currently no single definition of external assistance adopted by all recipients and providers/donors, the IPSASB is of the view that the definition included in this proposed Standard captures the key features of the definitions currently in use, and is appropriate.

Exposure Draft ED 24

- BC8. The IPSASB issued Exposure Draft ED 24, “Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance” in February 2005 for comment by June 15, 2005. The IPSASB attempted to have the proposed requirements of ED 24 field tested in developing countries and sought assistance from the OECD-DAC and provider/donor organizations in a number of countries to this end. However, field testing did not occur.
- BC9. Responses to ED 24 provided mixed messages about the practicability and onerous nature of some of the proposed requirements. The IPSASB undertook extensive consultation with its Consultative Group and other constituents on whether it was important to proceed with this project. It also considered approaches that might be adopted for the development of requirements that enhance the accountability of financial statements, do not impose an inappropriate burden on reporting entities and can be justified on a cost-benefit basis across a wide range of jurisdictions.
- BC10. The IPSASB remains of the view that it is important to develop requirements for disclosure of information about external assistance by recipients that report under the Cash Basis IPSAS. This has been reinforced by discussions with constituents. However, the IPSASB recognizes that the ability of individual recipients to comply with the proposed requirements of ED 24 may differ because of the availability of the information and/or the capacity of the current accounting system to capture and process the information as proposed.
- BC11. Constituents proposed that the IPSASB develop requirements that mirror the approach in the Cash Basis IPSAS – that is, a mandatory section which establishes the minimum disclosures necessary to discharge accountability, supported by a section which identifies additional encouraged disclosures to enhance accountability and provide additional information as input for decision making purposes. The additional encouraged disclosures could then be activated as appropriate in different jurisdictions in consultation between recipients and providers/donors of external assistance. The IPSASB is of the view that this is a sensible way to proceed and can be justified on a cost benefit basis. The proposed amendments to the Cash Basis IPSAS reflected in this proposed Standard have been developed to reflect that approach.

Required and Encouraged Disclosures

- BC12. This proposed Standard requires certain disclosures, including disclosure of the total amount of external assistance received in cash or paid by third parties to settle obligations of the recipient during the reporting period, the amount of external assistance that has not yet been drawn down and non compliance significant terms and conditions that have not been complied with when non compliance has resulted in cancellation of the assistance. The proposed IPSAS also encourages, but does not require, a range of other disclosures including disclosure of the significant classes of external assistance received during the period the value of goods and services received in-kind, and terms and conditions that govern the draw down or may otherwise affect access to external assistance.
- BC13. The IPSASB is of the view that the required disclosures are necessary to adequately inform readers of the financial statements of the total amount of external assistance received, used and available during the reporting period. The additional encouraged disclosures will also further enhance assessment of the extent to which the reporting entity is dependent on external assistance to support its activities, the sources of that assistance and the sustainability of its ongoing operations.

Third Party Settlements and Receipt of Goods and Services In-Kind

- BC14. Recipients of external assistance may receive the proceeds of an assistance package in cash as a lump sum or as tranches of the total agreed amount. In addition, particularly with project specific loans, the recipient may settle its obligations to suppliers of goods or services and ask the external assistance agency to reimburse it for the amounts paid, or the recipient may ask the external assistance agency to settle its obligations directly with, or purchase certain specified goods from, the supplier. In these cases, the goods or services utilized in accomplishing the project are determined or otherwise selected by the recipient, usually within procurement rules agreed to by the recipient and the external assistance agency. The external assistance agency then operates as a financier. The IPSASB is of the view that these payments to third parties are similar to central treasury account payments of funds designated for use by the recipient. Consistent with existing requirements of the Cash Basis IPSAS, they are reported in a separate column on the face of the Statement of Receipts and Payments.

- BC15. In some cases, an external assistance agreement will require the external assistance agency to provide certain goods or services to the recipient. In these cases, the external assistance agency usually determines the specification of the goods or services, procures them, and then provides them to the recipients as goods or services in-kind. Therefore, the recipient receives external assistance in the form of goods and services rather than in the form of cash or by way of settlement of obligations it has incurred. An important form of this type of assistance is food aid provided by a donor entity to the recipient entity.
- BC16. The receipt of goods or services in-kind is not reported on the face of the Statement of Receipts and Payments. ED 24 proposed that the fair value of such goods and services be disclosed as a note to the financial statements, and provided guidance on how that fair value was to be determined. Respondents to ED 24 were strongly of the view that in many jurisdictions a reliable fair value for such goods and services is not available and, in many other jurisdictions, the cost of generating such value may be prohibitive. Some also questioned the purpose of such disclosures under the cash basis of financial reporting, where many assets may not be recognized.
- BC17. The IPSASB was persuaded by these arguments. Therefore, this proposed Standard does not require the disclosure of the fair value of goods and services in-kind. However, the receipt of goods or services may be an important source of external assistance, and this proposed Standard encourages the disclosure of the value of goods or services received in-kind in the notes to the financial statements. It also requires that where disclosure of such values are made, the notes disclose the basis on which the valuation is made.

Transitional Provisions

- BC18. Multilateral and bilateral agencies usually maintain detailed records of external assistance provided and available to each recipient under each external assistance agreement. In some cases, they maintain the information on computer data bases which are accessible by recipient country authorities. In most cases, they provide notification of the details of each transaction including the currency or currencies utilized – however, this notification may be sent only to the implementing agency and not to the Ministry of Finance or other agency responsible for the recipient's accounting. Usually external assistance agencies

periodically confirm drawn and undrawn balances with the recipient. Therefore, although recipients may not initially have detailed information regarding opening and closing balances, in most cases the amount should be readily available from external assistance agencies.

- BC19. The IPSASB is of the view that a two year transitional period will provide recipients sufficient time to access the information necessary to comply with the requirements of the Standard relating to undrawn balances.
- BC20. In some cases it may not be practicable to gather all the relevant data about external assistance transactions and balances of the previous period when an entity first adopts the requirements proposed in this Standard. This is likely to be particularly true in respect of third party settlements and undrawn balances of external assistance. To provide entities with sufficient time to ensure that accounting systems capture and process the necessary data, this proposed Standard does not require comparative figures to be disclosed in the first year of operation of the Standard.



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