



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG02-xx

16 July 2024 – Video Conference

Common grant model for revenue and grant expenses

Summary	This paper summarises the key issues raised in the responses to the proposed common model for accounting for grants (both received and awarded (given/made)).
Purpose/Objective of the paper	To allow TAG members to consider whether further development of the common grant model is required, and to consider any practical issues associated with the common grant model.
Other supporting items	None
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Actions for this meeting	Advise on: <ul style="list-style-type: none">• Whether further developments of the common grant model are required.• Practical issues in applying the common grant model and how these may be addressed.

Technical Advisory Group

Common grant model for revenue and grant expenses

1. Introduction

- 1.1 Exposure Draft (ED) 2 included proposals for a common grant model to be used in accounting for both grants received (revenue) and grants given (grant expenses). Section 23 Part I of INPAG covers grant revenue, while Section 24 Part I includes grant expenses.
- 1.2 The model separates grants into two groups, enforceable grant arrangements (EGAs), where both parties have both rights and obligations; and other funding arrangements (OFAs), comprising all other grant arrangements.
- 1.3 Respondents to ED 2 were asked whether they supported the common grant model in both the revenue and grant expenses sections. Some respondents gave different answers in the two sections. Where a respondent both agreed and disagreed with the model, this has been taken as a disagreement with the model as a common model. Respondents generally supported the common grant model, with almost three quarters of respondents supporting the model. Fewer than one in five respondents disagreed with the model.
- 1.4 A further question asked whether all grants could be classified as either EGAs or OFAs. Over 80% of respondents agreed that with the proposals for classification. Although this question was only asked in the grant expenses section, the responses made it clear that respondents had also considered the issue from the revenue perspective.
- 1.5 Details of the responses to these questions are provided in [Annex A](#).
- 1.6 Although the majority agreed with the proposals for the common grant model, a number of issues (particularly regarding the classification of grant arrangements as either EGAs or OFAs) were raised by both those who agree with the common model, and those who disagree with it. Some issues relate to the link between grant revenue and fund accounting. This paper describes the key issues raised in the responses for TAG input.

- 1.7 The PAG considered the responses to the common grant model at its June 2024 meeting, and feedback from PAG members is included in this paper.
- 1.8 Responses to the other SMCs on revenue and grant expenses will be considered at later meetings.

2. Grant types and definitions

Types of grant and accounting outcomes

- 2.1 Respondents raised a number of concerns regarding the definitions of EGAs and OFAs. The definitions provided in ED 2 are:

Enforceable grant arrangement (EGA): *A grant arrangement where both a donor and grant recipient have both rights and obligations, enforceable through legal or equivalent means. A grant recipient's undertakings under an EGA are EGOs. An EGA must have at least one EGO.*

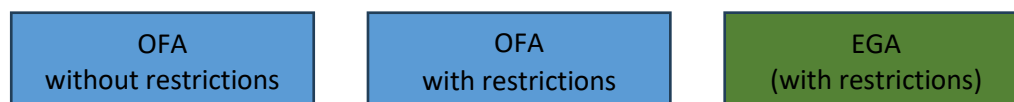
Other funding arrangement (OFA): *An arrangement with a grant recipient that is not an enforceable grant arrangement.*

- 2.2 Respondents to ED 2 raised some practical issues they anticipated would arise in applying the common grant model. These practical issues are summarised below, with further details provided of all practical considerations in [Annex C](#).
- 2.3 Some respondents considered that existing grant documentation would make it difficult to determine the correct grant classification. Examples included the targets or objectives in the written documentation differing from the mutual expectations that both parties adhered to, which has been discussed above.
- 2.4 To address this issue, respondents suggested work be carried out with grantors and other donor groups to standardise reporting requirements. The Secretariat agrees that clear examples of wording that can identify different types of performance obligations will not only support desired reporting outcomes, but also improve the consistency of reporting in the sector in the longer term.
- 2.5 The relationship between the grant arrangements and presentation of a grant arrangement as with or without restrictions, was raised by many respondents.

- 2.6 The recognition and measurement requirements for grants are contained in Sections 23 (revenue) and 24 (grant expenses), with the requirements for presenting funds contained in the new fund accounting section (Section 36). For each class of grant, there is a single recognition and measurement approach, where the principles can be applied to revenue and grant expenses.
- 2.7 The recognition and measurement of all OFAs is the same, but the presentation of the revenue (or grant expenses) and fund balances depends on whether there are restrictions on how the funds can be used. When the fund accounting requirements (which will more commonly relate to revenue than grant expenses) are taken into account, there are three distinct outcomes:



- 2.8 Some respondents questioned the approach of having two grant categories with three accounting outcomes. In expressing these concerns, some respondents noted that as the fund accounting section would be included in ED 3, their views were subject to change.
- 2.9 Some respondents considered that it would be preferable to have three grant categories, dividing the OFA category into two – OFAs with restrictions and OFAs without restrictions. This approach, shown below, would incorporate some of the fund accounting requirements into the grant classification process.



- 2.10 A number of the respondents who supported separating the OFA category also suggested alternative terminology; their suggestions included:
- Retain OFA where there is no restriction on the use of the funds; introduce a third class of grants, *Funding Agreement with Purpose Restrictions* where an OFA has restrictions on the use of the funds; and replace EGA with *Funding Agreement with Enforceable Deliverables (FED)*.

- Replace OFA with *Unrestricted grants* where there is no restriction on the use of the funds; introduce a third class of grants, *Restricted grants* where an OFA has restrictions on the use of the funds; and replace EGA with *Performance related grants*.

Enforceability

- 2.11 Respondents raised concerns related to enforceability, particularly through equivalent means. These concerns are summarised below, with further details provided in [Annex B](#).
- 2.12 In many cases, respondents' concerns about the use of enforceability related to determining the enforceable grant obligation. A particular concern is that the written grant agreement may specify targets to be met, whereas the customary practice, understood and accepted by both parties, is that the targets are not firm, and if the recipient NPO makes its best endeavours to achieve the target that will be sufficient.
- 2.13 The Secretariat notes these concerns and will consider whether revised drafting or additional guidance is required. Enforceability is a key feature of the common grant model, and the requirements will therefore need to be as clear as possible to assist NPOs.
- 2.14 Some respondents questioned the terms used in the definitions:
- “Enforceable grant arrangement” was seen by some as problematic, as OFAs that impose restrictions on the funds are also enforceable arrangements.
 - Some donors make awards in the form of either “grants” or “contracts”, but both would meet the definition of an EGA (grant) under INPAG. Using neutral terminology such as “awards” would help to avoid misunderstandings.

Definitions and the link to obligations

- 2.15 The key issue identified by respondents regarding the definitions is that the distinguishing feature in determining the correct accounting treatment is the existence of an enforceable obligation. A single grant arrangement could have elements which include an enforceable grant obligation (EGO), and other elements where no EGO is present; these different elements would require different accounting treatments.

- 2.16 This issue was discussed at the PAG meeting, where a number of members indicated that referring to EGAs and OFAs could be misleading. This is because the terminology implies all the components of an arrangement would be accounted for using a single approach. However, each element of the grant arrangement needs to be considered separately to determine its accounting treatment.
- 2.17 The Secretariat notes that this issue does not arise in the *IFRS or SMEs* Accounting Standard (or IFRS 15 Revenue from Contracts with Customers) because these standards only cover contracts where there is a promise to deliver goods or services (which is equivalent to an EGO).
- 2.18 The Secretariat acknowledges the comments made by respondents, and the views of PAG members. The Secretariat is increasingly of the view that framing the accounting requirements around the classification of a grant arrangement is counter to the original intention which was to identify the nature of the obligation or obligations in the grant arrangement.
- 2.19 The Secretariat remains of the view that the distinguishing factor from a revenue recognition perspective is whether a requirement or an obligation in a grant arrangement creates a present obligation on the grant recipient.
- 2.20 The Secretariat is therefore considering whether it would be clearer for users of INPAG to frame the model around the requirements or obligations in a grant arrangement, rather than a classification of the grant arrangement. If this approach is adopted it would address concerns about a single agreement containing different types of requirement or obligation.
- 2.21 Taking this approach would mean that the grant model and the treatment of a grant including the timing of its recognition would be dependent on the nature of the requirements or obligations in the grant arrangement. Taking this approach would not be inconsistent with the approach in the *IFRS for SMEs/IFRS 15* 5 step model, as the expectation is that the accounting treatment will follow the same approach.
- 2.22 The definitions used in the common model would then need to be recalibrated to reflect the characteristics of a requirement or an obligation, particularly to identify when a present obligation exists. Consideration could be given to the use of the term 'performance obligation' (noting that this is used for contracts with customers in IFRS 15) or 'enforceable deliverable' (as proposed by one respondent) for those obligations that have a present obligation and 'requirement' for all other types of obligation. If this approach

is adopted it would lead to grant arrangement containing for example, performance obligations/enforceable deliverables, requirements or no requirements.

- 2.23 Such proposals would continue to reference enforceability when considering when a present obligation exists. The Secretariat has noted and will consider further the concerns raised by respondents about enforceability, including through any revised drafting, additional guidance, illustrative examples, or educational material.
- 2.24 In paragraph 2.14 alternative terminology was suggested, reflecting concerns around the terms proposed in ED1. Any terms adopted will need to take into account any revised drafting to place the classification focus on obligations in the arrangement rather than the grant arrangement itself. The Secretariat will consider revisions to the terminology mindful that some of the terms suggested are already used in a jurisdiction but with different or differing definitions.

Question 1: Do TAG members agree with the Secretariat's proposals to redevelop the grant model to place the focus on the requirements or obligations in a grant arrangement rather than a grant arrangement itself?

Question 2: What are TAG members' views on the possibility of using the terms performance obligation, requirement, or no requirement to frame the accounting treatment?

Question 3: Do TAG members have any other views on the terminology used in the definitions based on the feedback received?

Grantors' rights

- 2.25 One respondent did not support the application of the model for grant expenses, as they did not consider that a donor's right to the recipient's future performance would give rise to an asset (although the obligation to perform would be a liability for the grant recipient). Some PAG members expressed support for this view.
- 2.26 The Secretariat notes that this issue was considered by the IPSASB in developing IPSAS 48, *Transfer Expenses*. The grant expenses requirements in INPAG are based on IPSAS 48, where the IPSASB concluded that the

enforceable right to the grant recipient's future performance satisfied the definition of an asset in the IPSASB *Conceptual Framework* – see *IPSAS 48 BC27*. As the IPSASB *Conceptual Framework* is consistent with INPAG's Section 2, *Concepts and pervasive principles*, the Secretariat is of the view this rationale would also be applicable to INPAG.

Question 4: Do TAG members agree with the Secretariat's view that a donor's right to the recipient's future performance gives rise to an asset?

3. Practical issues

- 3.1 The complexity of the requirements (accounting as well as classification) was raised by a number of respondents. Some respondents considered that the requirements could be simplified; others suggested a proportionate approach, with simplified requirements for smaller NPOs.
- 3.2 A key concern was the capacity of NPO staff in smaller NPOs to deal with the requirements, in particular monitoring the performance of obligations (both as a donor and as a recipient). There might also be a need for additional monitoring, as current arrangements could be tied to key milestones or project timetables that do not align with the financial reporting periods. This could involve increased administration for both donors and recipients.
- 3.3 These factors prompted some respondents to question the cost-benefit of the proposed accounting treatment of EGAs.
- 3.4 The Secretariat notes the comments regarding complexity and will consider whether this will be addressed (at least in part) by any drafting or additional guidance that is developed in response to the stakeholder comments on the definitions. In taking this feedback forward the Secretariat notes that INPAG is not intended for the smallest NPOs and that there is a risk that introducing simplifications could result in inappropriate use by larger NPOs, with the financial statements not reflecting the economic substance of the grant transactions.
- 3.5 One respondent questioned whether it would be possible for a donor and a recipient to come to different conclusions regarding the classification of a grant, and if so, how this should be addressed. The Secretariat acknowledges this risk, which is no different to the possibility of differences in the

accounting for contracts with customers. This risk could be minimised by appropriate guidance and better documentation.

- 3.6 One respondent raised the question of how to distinguish between administration costs and costs that were associated with satisfying an EGO. The Secretariat considers that responses to ED 3, which addresses the classification of expenses, should be taken into account when deciding if any additional guidance is required.
- 3.7 The Secretariat will review the practical issues identified by respondents and discuss these with a Focus Group to determine how they might be addressed.

Question 5: Do these practical issues resonate with TAG members. If so, what advice do TAG members have concerning these issues?

July 2024



Annex A – Summary of Feedback Responses to SMCs

SMC 4(a) and SMC 5(a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?	Aggregate Response	Number	% of those who responded (45)
	Agree	33	73%
	Disagree	8	18%
	Neither agree nor disagree	4	9%
	No Response	2	
		47	100%

SMC 5(b) Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as an other funding arrangement. If not provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?	Response	Number	% of those who responded (36)
	Agree	30	83%
	Disagree	4	11%
	Neither agree nor disagree	2	6%
	No Response	11	-
	Totals	47	100%

Annex B – Definitions (SMC 4a and 5a)

Concern	Secretariat comment
<p>How is enforceability assessed when performance is judged against agreed expectations which may not be fully reflected in the written agreement?</p>	<p>Depending on the legal framework and customary practice, the agreed expectations may form part of an enforceable grant arrangement even if they are not in written form. To be enforceable, these expectations would need to be sufficiently clear and accepted by both parties.</p>
<p>Some grant arrangements include targets, enforcement is not necessarily based on achieving the targets but on ensuring that best endeavours to achieve the target are made.</p>	<p>Similar to the concern above, if this is a common understanding that reflects customary practice, it may form part of the enforceable grant arrangement, even if not in written form. If meeting the targets is not required, the obligation may be to use the funds in pursuit of the target even if it is not ultimately achieved</p>
<p>Where enforcement is through the withholding of future funds, why is a past history of funds being withheld required?</p>	<p>Where enforcement is based on the withholding of future funds, all factors need to be considered. A past history of withholding future funds (or not doing so) is part of the evidence to be considered, but is not a requirement of INPAG.</p>
<p>Some grants will not pass the enforceability test because the agreements are not enforceable by both parties – the donor may be able to enforce the terms of the grant agreement, but the recipient may not be able to do so.</p>	<p>If the donor pays the grant in advance, enforceability by the recipient is not an issue as there is no outstanding right to enforce. If the donor does not pay in advance, and the recipient cannot enforce payment even though the donor can enforce performance by the recipient, this will not be an EGA. The accounting requirements for OFAs include requirements for situations where the recipient has a provision, and these requirements would be relevant here.</p>



Concern	Secretariat comment
<p>Some grants terms specify that future payments are “subject to fund availability.” Under these circumstances, it becomes challenging to ascertain the rights and obligations of both the donor and the recipient that are present in the agreement.</p>	<p>Consideration will need to be given to all the circumstances of the grant. If future payments are at risk because funds may not be available, then each future payment (and associated obligations for the recipient) may need to be considered as individual grants that are not recognised until a payment is made (or funds are confirmed as available and the recipient undertakes work on its obligations).</p>
<p>Some respondents expressed concern over some of the terms used in the definitions:</p> <p><i>Enforceable grant arrangement</i> was seen by some as problematic, as OFAs that impose restrictions on the funds are also enforceable arrangements. Respondents noted that the distinguishing feature is an enforceable obligation, not an enforceable arrangement.</p> <p>Some donors make awards in the form of either “grants” or “contracts”, but both would meet the definition of an EGA (grant) under INPAG. Using neutral terminology such as “awards” would help to avoid misunderstandings.</p>	<p>See comments in body of report.</p>

Annex C – Practical issues (SMC 4a and 5a)

Practical issue	Secretariat comment
<p>Some respondents considered that existing grant documentation would make it difficult to determine the correct grant classification, and to apply the appropriate accounting requirements. Examples included the targets or objectives in the written documentation differing from the mutual expectations that both parties adhered to, which has been discussed above under the definitions heading. To address this issue, respondents suggested “work being done with grantors and other donor groups to standardise reporting requirements and to improve quality of underlying documentation such as grant agreements. Clear examples of wording that can identify suitable performance obligations will not only support desired reporting outcomes, but also improve the consistency of reporting in the sector in the longer term to a point where a more conceptually pure approach is feasible.”</p>	<p>The Secretariat notes that one of the benefits of implementing INPAG is expected to be an improvement in NPO’s financial management, and improved grant arrangements.</p> <p>The suggestion that donors and recipients work together on standardised terms is agreed. Work has already commenced to set up a working group.</p>
<p>The complexity of the requirements (accounting as well as classification) was raised by a number of respondents. Some respondents considered that the requirements could be simplified; others suggested a proportionate approach, with simplified requirements or smaller NPOs. A key concern was the capacity of NPO staff in smaller NPOs to deal with the requirements, in particular monitoring the performance of</p>	<p>The Secretariat notes the comments regarding complexity, and will consider whether this will be addressed (at least in part) by any drafting or additional guidance that is developed in response to the stakeholder comments on the definitions.</p> <p>Some respondents noted that there would be a requirement for education</p>



Practical issue	Secretariat comment
<p>obligations (both as a donor and as a recipient). On this issue, some respondents commented that donors would be need to undertake additional monitoring of recipients' performance, as current arrangements could be tied to key milestones or project timetables that do not align with the financial reporting periods. This could involve increased administration for both donors and recipients.</p> <p>These factors prompted some respondents to question the cost-benefit of the proposed accounting treatment of EGAs.</p>	<p>and sensitisation to the new terms and requirements, which is undoubtedly true. The Secretariat notes the comments regarding smaller NPOs, but notes that smaller NPOs are not the intended users of INPAG. Introducing simplifications could result in these being used inappropriately by larger NPOs where use of the full requirements would be appropriate, as this would report the economic substance of the transaction.</p>
<p>One respondent questioned whether it would be possible for a donor and a recipient to come to different conclusions regarding the classification of a grant, and if so, how this should be addressed.</p>	<p>There is a risk that the donor and recipient could reach different conclusions. This risk could be minimised by appropriate guidance, better documentation, and by agreeing the expectations each party has, as discussed in paragraph 3.8 of the main report.</p> <p>A greater risk is that different conclusions could be reached regarding when an obligation has been satisfied and a grant expense (donor) or revenue (recipient) should therefore be recognised. If the grantor and recipient are in the same group, differing conclusions would cause consolidation difficulties.</p> <p>This could arise where the parties base their assessments on different information. This risk should be mitigated by good communication of progress in meeting the obligations.</p>



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Practical issue	Secretariat comment
One respondent raised the question of how to distinguish between administration costs and costs that were associated with satisfying an EGO.	The classification of expenses is included in ED 3. The Secretariat considers that responses to ED 3 should be taken into account when deciding if any additional guidance in this issue is required.