



Technical Advisory Group

Issue Paper

AGENDA ITEM: TAFG06-03

25 February 2025 – Online

Grant Expenses – Response to ED2 and Final Guidance

Summary	This paper provides TAG members with an update to the final guidance for Section 24 Part I, Expenses on grants and donations, its Implementation Guidance and Basis for Conclusions following changes to the grant model and TAG's consideration of the first draft in September 2024.
Purpose/Objective of the paper	The purpose of this paper is to provide the final guidance for grant expenses, which incorporates TAG member's feedback on previous drafts of the final guidance. It follows a similar approach to the grant model for grant revenue discussed with TAG members and a new approach to sensitive information.
Other supporting items	TAFG03-08, TAGFG04-01, TAGFG05-01
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Actions for this meeting	Comment on: <ul style="list-style-type: none">• The approach in Section 24 Part I to the common grant model, including the new decision tree and the changes in terminology.• Changes in terminology across the Section.• The new proposed approach to sensitive information.• The removal of references to other sections.



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Grant Expenses - Response to ED2 and Final Guidance

1. Introduction

- 1.1 This paper provides:
- an update to the final guidance for Section 24 Part I, Expenses on grants and donations, its Implementation Guidance and Basis for Conclusions following changes to the approach to describe the grant model for grant revenue and TAG's consideration of the first draft in September 2024 – see separate Annex, and
 - suggested approaches for the final guidance.

2. Background

- 2.1 TAG received a report at its September 2024 meeting on the feedback from Exposure Draft 2 (ED2) on grant expenses. At its September meeting it also received early drafts of the final guidance for the amendments to Section 24 Part I, its Implementation Guidance and the Basis for Conclusions.
- 2.2 In September 2024 TAG advice relating to grant revenue was to revisit the description and terminology in the grant model. TAG members have considered various drafts of Section 23 Part I at their December 2024 and January 2025 meetings. As Section 24, Part I uses the same model of grant accounting albeit from the grant awarding NPO perspective TAG member's advice in September 2024 was to await the agreed approach for grant revenue before reviewing the drafting of Section 24 Part I. Consequently, the amendments to Section 24 Part I reflect the approach in Section 23 Part I *Revenue from grants and donations*.
- 2.3 There have been two focus groups meetings of focus group 1 (established to provide input on grant accounting) in November and December 2024. These focus groups considered the grant model and terminology.

3. Common Grant Model

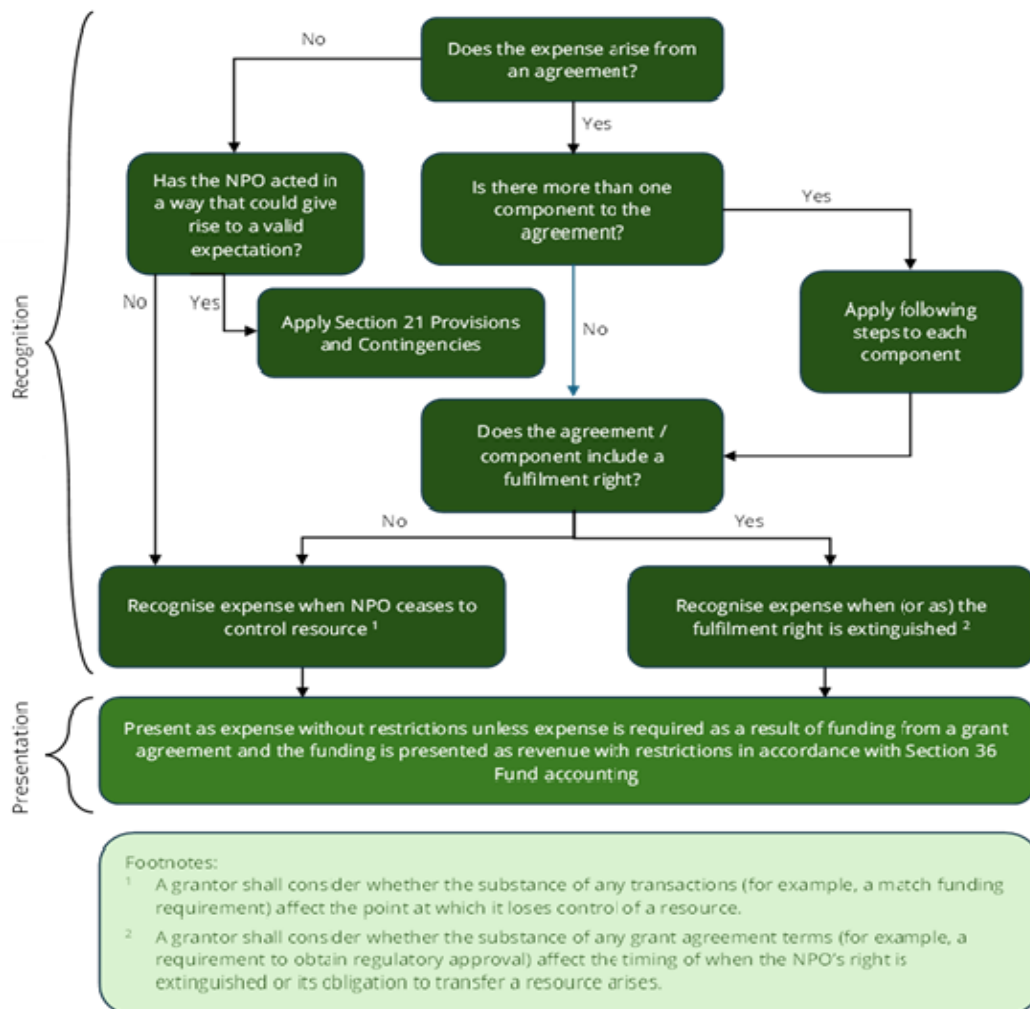
- 3.1 TAG members considered issues emanating from the common grant model which applies to both grant revenue and grant expenses. The decision tree for grant expenses is similar to the one for grant revenue in structure and format. This moves away from enforceable grant obligations and

components and focuses on accounting treatment of the rights and obligations in a grant agreement. This is intended to assist accounts preparers with the determination of the unit of account.

- 3.2 Similar to the approach to grant revenue instead of a diagrammatic description of the model a decision tree has been introduced for the grant expenses model. It captures the main recognition, measurement and presentation requirements for grant expenses transactions in summary. This is to provide an overview of the accounting requirements to make the transactions more understandable and accessible.
- 3.3 Using a single model the decision tree sets out that grant expenses will be recognised depending on whether there is a grant expenses transactions with or without fulfilment rights.
- 3.4 The Secretariat considered that to parallel the description of the model in Section 23 Part I the term delivery right should be used instead of grant fulfilment right used in ED2. This proposed terminology was discussed with the focus group. Some focus group members were, of the view that this did not effectively describe the transaction and in a poll 44% of attendees considered that retaining the status quo was preferable with, 22% supporting delivery right, 11% supporting fulfilment right and 22% supporting other alternatives (note that this was for 9 respondents to the Poll).
- 3.5 Taking account of this feedback, the Secretariat proposes to use the term fulfilment right as this largely maintains the term used in ED2 but is a shorter, which might be more easily accessible to the users of INPAG, particularly set in the context of the guidance for the rest of the section.
- 3.6 To support the decision tree for the grant model a new paragraph and section have been added to introduce the types of grant expense transaction encountered by an NPO. This new section establishes that transactions are those with and without fulfilment rights in a manner similar to grant revenue.
- 3.7 The focus group was concerned that for grant expenses an important feature is that constructive obligations might arise for grant agreements or components of grant agreements where there are no enforceable rights and obligations. This issue was already discussed in the authoritative text and Illustrative Examples at relevant points where such transactions are most likely to occur. This has now been explicitly included in the decision tree following issues raised on the importance of such transactions for grant

awarding NPOs. The approach to the addition of constructive obligations to the decision tree was generally supported by focus group 1.

- 3.8 The description of a fulfilment right has been added to this introductory section. The description is based on the definition in IPSAS 48 *Transfer Expenses*. The description in Section 24 Part I is that fulfilment rights are a grantor's enforceable right to have the grant recipient satisfy its delivery obligation in a manner specified in the grant agreement or be required to address consequences specified in the agreement. The description will also be included in the Glossary. The new decision-tree for the grant expenses model is presented below:



Question 1: Do TAG Members have any comments on the decision tree for grant expenses? Do TAG Members consider the new approach to the



description of the grant model will assist with the identification of the unit of account?

Question 2: Do TAG Members agree with the explicit inclusion of constructive obligations for grant expenses in the decision tree?

Question 3: Do TAG Members agree with use of the term “fulfilment rights” and its description in the model and Section 24 Part I more generally?

4. Revised text for Section 24 Part I

- 4.1 The new descriptions for the grant model as they relate to grant expenses have also been updated throughout Section 24 Part I. Although the description used in the model have been changed, the accounting principles and treatments for the individual transactions in Section 24 Part I and the associated Implementation Guidance remain unchanged.
- 4.2 The changes to the descriptions in the model are pervasive across the text of Section 24 Part 1 and therefore this section has been revised from the version seen by TAG in September 2024 using ED2 as the starting point. The complexity and amount of changes though have meant that these are not presented as tracked changes.
- 4.3 Section 24 Part I and its Implementation Guidance has also been edited to ensure a consistent approach with Section 23 Part I following the discussions at the TAG.
- 4.4 At the September 2024 TAG meeting, TAG members were concerned that the description in ED2 of grant-providing NPO may be an overly long term, making the text in Section 24 Part I more complex. Advice also indicated that it might also not be clear that the grant-providing NPO would also be the reporting NPO.
- 4.5 The Secretariat is of the view that it is important to differentiate in this Section between the grant-providing NPO and the grant recipient (who may also be an NPO). It has therefore clarified that the Section is drafted from the perspective of the grant-providing NPO using the new term grantor. This new paragraph also establishes that in Section 24 the grantor is the reporting NPO.
- 4.6 TAG members also advised that the term “extinguished” should be used to describe transactions when a grantor no longer has enforceable rights

(rather than the descriptions of these transactions being addressed from the perspective of the grant recipient meeting or satisfying delivery obligations or the fulfilment rights). A description of extinguished has been included in paragraph G24.5 and the term has been used as applicable throughout section 24 Part I.

- 4.7 As with the edits presented to TAG in September 2024 the Application Guidance has either been subsumed into core text or the Implementation Guidance some paragraphs have been removed where there is duplication.
- 4.8 The Implementation Guidance reflects the changes to the grant expenses model and terminology. It has been restructured (including the new Application Guidance) to follow the order of the authoritative text as has the order of the illustrative. The Illustrative Examples also include new headings for each example to help to identify the principles being illustrated and sub-headings to identify the background, analysis and conclusion for each example.
- 4.9 The Implementation Guidance includes Figure IG24.1. This has been amended to reflect the changes made elsewhere in this Section. However, with the addition of the decision tree in Figure G24.1, it may be of less value.

Question 4: Do TAG Members agree with the approach to terminology in Section 24 Part I (including the use of the term “grantor”).

Question 5: Do TAG Members agree with the overall approach to the edits to Section 24 Part I – see Appendix A and the Annex to this report?

Question 6: Do TAG Members agree with approach to the amendments in the Implementation Guidance including the Illustrative Examples? Do TAG agree that Figure IG24.1 is still useful?

5. Disclosures

- 5.1 When undertaking a review of the disclosures for this and other key sections of INPAG the Secretariat considered that Section 24 Part I included several cross references to other Sections of INPAG for disclosures including those relating to Section 11 *Financial instruments* and Section 21 *Provisions and contingencies*, which was not consistent with the drafting of other sections. This drafting was originally included due to the impact of the new reporting

requirements on NPOs rather than being a specific reporting need for accounts preparers.

- 5.2 The Secretariat is of the view that this might overcomplicate Section 24 Part I and might mean that other potential disclosures are missed. The Secretariat has instead included a new section in the Implementation Guidance which highlights the potential reporting requirements from other sections of INPAG based on the disclosures identified in ED2. The disclosures which are cross-references to other sections have therefore been moved to paragraphs IG24.59– IG24.63 of the Implementation Guidance.

Question 7: Do TAG Members agree with the approach to the disclosure requirements from other sections of INPAG relating to grant expenses (see IG24.59– IG24.63)?

6. Sensitive Information and Grant Expenses

- 6.1 Respondents that agreed with the sensitive information exception commented that it is appropriately balanced and is sensible to protect individuals but also to comply with privacy legislation and is a practical solution to the risks. Respondents were, however, concerned that the exemption may be used inappropriately or be misused and were concerned about the impact on transparency and accountability. Concerns were also raised that use of the exception could do the reverse of what was intended by drawing attention to activities that could then lead to harm.
- 6.2 As previously reported to the TAG, similar issues relating to the reporting of sensitive information apply to Section 35 *Narrative reporting* where an exception for reporting sensitive information was included in Exposure Draft 1. TAG members recognised the difficulties regarding the non-disclosure of sensitive information in the narrative report. Additional guidance was provided to the TAG at its July 2024 meeting. TAG members were supportive overall, but advice included that the amount of additional guidance on sensitive information risks it becoming rules based.
- 6.3 The Secretariat agreed to explore the development of a case study on narrative reporting to illustrate the application of the guidance in a real world situation. This would be developed with the support of NPOs. Unfortunately, this has proved to be problematic due to the availability of relevant personnel and concerns about how information could be shared with the

Secretariat so that it wouldn't create unintended consequences. Consequently, the Secretariat has been unable to produce case study information. It will now not be possible to develop case studies ahead of the publication of the first edition of INPAG.

- 6.4 The Secretariat is concerned that the dichotomy of views has meant that the guidance developed to meet the concerns of respondents might not meet its original intention. More prescriptive guidance may be more problematic for NPOs that have sensitive information, than seeking to meet information requirements based on principles.
- 6.5 It is also difficult to address the valid concerns about disclosing information which might place service users, the NPO its volunteers and staff at risk of some form of harm and the possibility of presenting incomplete information on grant expenses (or information in the narrative report) through inappropriate non-disclosure. These difficulties also risk reducing transparency and accountability for the primary users of general purpose financial reports.
- 6.6 Interestingly, since the discussions about sensitive information at the TAG, in the IASB's recent deliberations (9 December 2024) on targeted refinements to the proposals in the Exposure Draft (ED) Management Commentary, they discussed why an exemption for commercially sensitive information is unnecessary in the context of the requirements in the revised Practice Statement. Staff papers included arguments that there was not a need to include an exception because the ED requires high-level, aggregate information and therefore does not require granular information.
- 6.7 Taking account of the challenges outlined in the preceding paragraphs, the Secretariat is now proposing to remove the exception on sensitive information in the Section 24 Part I authoritative guidance. Instead, the reporting of sensitive information will be addressed in the Implementation Guidance for the section.
- 6.8 The Secretariat considers that this approach provides flexibility for NPOs to take their own decisions on reporting in accordance with their circumstances, the risks they face and transparency and accountability for the users of NPO general purpose financial reports. It avoids being overly prescriptive and no longer requires an NPO to identify that it has used an exception in preparing

its information. This approach has been explained in the Basis for Conclusions.

6.9 The Secretariat proposes that ED2 paragraphs G24.33 to G24.35 are removed from the authoritative text. The original Implementation Guidance has been augmented by new guidance, and paragraphs IG24.65 and IG24.67 have been retained with minor amendments.

6.10 The proposed new Implementation Guidance:

- sets out that information should be excluded where there is a risk to the safety, or wellbeing of the NPO, its staff and volunteers;
- *provides examples of circumstances where information might be sensitive;*
- provides examples of the types of grant expense information which might be sensitive;
- *indicates that the NPO should consider reporting on certain information that has been excluded (including more general information on the grant expenses); and*
- clarifies that the guidance on information which might be excluded is not to be used as a way of hiding poor performance or financial problems that may have arisen with aspects of its operations.

The items above in italics will be provided by cross reference to Section 35 *Narrative reporting* Implementation Guidance.

6.11 PAG considered an early draft of this approach for Section 35 Narrative reporting and PAG members were generally supportive of the approach. One PAG member was concerned that the specifications relating to the guidance not being used to hide poor performance might lead to audit issues.

6.12 PAG members were also concerned that the guidance might be lead to NPOs not complying with national legislative requirements (note this type of feedback was also included in the responses to ED2). The Secretariat will include commentary in the Implementation Guidance in Section 35 that the Implementation Guidance on sensitive information should not prevent an NPO from complying with its legal or professional responsibilities. The Secretariat propose the following text

“Nothing in the Implementation Guidance on sensitive information in narrative reporting or grant expenses will prevent an NPO from complying with its legal responsibilities or any of the professional or fiduciary responsibilities of any of its officers”.



Question 8: What are TAG's views on the approach to the draft Implementation Guidance for sensitive information relating to the reporting of grant expenses?

Question 9: What are TAG members' views on the extent to which NPOs be encouraged to report information has been excluded to balance the risk arising from sensitive information with transparency?

7. Basis for conclusions

7.1 The Basis for Conclusions has been updated to confirm agreement with the proposals in the SMCs, to summarise the significant issues raised and decisions taken in response to the SMCs in ED2. It has therefore been amended to include confirmation of the issues reported at TAG's September meeting including that:

- the common grant model is conceptually sound, but it also covers the clarifications and changes in impact on the terminology;
- regulatory oversight mechanisms and common practices can establish fulfilment rights;
- the timing of the recognition of grant expenses is consistent over multiple reporting periods and for the recognition of capital grants;
- a prepayment asset exists in grant expense transactions with fulfilment rights when the grantor transfers resources to the recipient (and an explanation has been added as to why it meets the definition of an asset);
- sensitive information guidance has been moved to the Implementation Guidance;
- guidance on the disclosures required by other sections of INPAG has been moved to the Implementation Guidance; and
- a short section on the changes to terminology has been included.

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