



HM Treasury

Financial Reporting Advisory Board

Grantor Accounting

Issue:	An update on the drafting the application guidance on grantor accounting.
Impact on guidance:	Potentially- see questions in para 6 of this paper.
IAS/IFRS adaptation?	Potentially- see questions in para 6 of this paper.
Impact on WGA?	If additional guidance is introduced in this area, departments may change their approach to grantor accounting, which would have knock-on implications to WGA, however the guidance does not introduce any changes to accounting policies or estimation techniques. Additional guidance should encourage consistency in grantor accounting across government.
IPSAS compliant?	HM Treasury have consulted IPSAS requirements on grantor accounting in developing this paper.
Interpretation for the public sector context?	Potentially- see questions in para 6 of this paper.
Impact on budgetary and Estimates regimes?	If additional guidance is introduced in this area, departments may prospectively change the pattern of expenditure recognised for grantor accounting, which may have knock-on implications to Estimates. However, the guidance does not introduce any changes to accounting policies or estimation techniques.
Alignment with National Accounts	There is an existing misalignment between IFRS and ESA10 with respect to provisions (provisions are not recognised in national accounts).
Recommendation:	Please could FRAB members review the grantor accounting application guidance, provide any comments and provide feedback on the questions posed in para 6 of this paper.
Timing:	For this guidance to be available for accounts preparers when preparing their 2020-21 annual reports and accounts it should be released within the next few weeks.

DETAIL

Background

1. At the November 2020 FRAB meeting HM Treasury agreed to develop application guidance on grantor accounting. This was driven by a relative lack of guidance on grantor accounting in IFRSs and the significant accounting issues from accounting for the Covid-19 support schemes announced by the UK government in March 2020.
2. The draft application guidance can be seen in paper Appendix 1 (under separate cover). HM Treasury took a principles-based approach to drafting the guidance by noting the types of questions which need to be considered when judging whether a grant liability exists or not.
3. As the guidance is principles-based it will not remove the need to apply judgements and therefore account preparers will still need to exercise their own professional judgement when determining whether a liability exists.

Feedback Received

4. The draft guidance has been reviewed by BEIS and the Relevant Authorities Working Group (RAWG). There was strong support for the guidance overall. More specific feedback included the following comments:
 - a) Before even determining whether IAS 37 is the applicable standard, entities should determine whether the grant is an executory contract and therefore outside the scope of IAS 37.
 - b) The guidance does not go far enough in establishing clear lines of when a grant liability exists resulting from government announcements and other actions. There needs to be greater clarity regarding, at what point, government announcements and actions create a valid expectation which cannot be realistically reversed.
 - c) Feedback received suggests using the guidance in IAS 37 paras 72 to 83 on restructuring constructive obligations to model guidance on when grant constructive obligations exist.
 - d) The guidance does not take account of IAS 37 para 22 on the interaction between obligations and legislation being enacted. Feedback suggested that using this paragraph in any application guidance would help reduce the level of judgement which needs to be exercised.
 - e) More worked examples would be useful. Particularly for the '**Timing considerations around eligibility**' section. For example: If for a non-exchange grant the grant announcement/guidance includes eligibility criteria based on eligibility data from March 20XX, but the entitlement date is stated as April 20X1, then does this result in the obligation being created on April 20X1, rather than March 20XX?
 - f) Para 3.6 on multi-year grants: some feedback received did not entirely agree with the guidance in this paragraph. Some had the view that the existence of

an obligation and an entity's ability to fund the obligation are entirely separate despite what the grant agreement may say.

- g) Terms such as 'unilateral offers of support' and 'basic eligibility criteria' are used in the guidance, but not sufficiently defined.
- h) The guidance is not clear on what '**sufficiently specific**' means in the context of government announcements and other actions creating a liability.
- i) IPSAS Exposure Draft 72 is quoted in the guidance, however, any final standard could differ from this Exposure Draft, so caution needs to be exercised when quoting from this Draft.

Way forward

- 5. The feedback from BEIS and RAWG is very useful. It is evident that, from the perspective of the account preparers, the guidance does not go far enough. The common theme is that the guidance is too generic and does not provide enough clarity on when a liability can be created from government announcements and actions.
- 6. Aside from general comments from FRAB on the paper, **we would like FRAB to consider the follow questions:**
 - a) Does FRAB agree that the guidance is too generic to be useful enough to merit publication? If there are areas of the paper which need to be clearer, please could you tell us where and how they should be so?
 - b) Should HM Treasury develop a framework for determining whether grant liabilities exist similar to that in IAS 37 paras 72 to 83?
 - c) We would be particularly interested in FRAB's views on paras 3.5 to 3.6 of the grantor accounting application guidance on multi-year grants. Specifically, whether FRAB agrees or disagrees with the guidance in these paragraphs?
 - d) Where Board members are minded to make the guidance more specific or prescriptive in applying IAS 37, would this constitute an adaptation or interpretation of the Standard (requiring the due process to be reflected in the FReM)?

HM Treasury

25th March 2021