

*Proposed International Public Sector Accounting
Standard*

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



**International Federation
of Accountants**

The Mission of IFAC

To serve the public interest, IFAC will continue to strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

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 June 15, 2005. E-mail 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 these 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.

This Exposure Draft proposes additional requirements for entities reporting under the cash basis of accounting.

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".

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 IPSAS 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.

A comprehensive IPSAS, “Financial Reporting under the Cash Basis of Accounting” (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 of a proposed Standard for application when the Cash Basis IPSAS is adopted. The Exposure Draft proposes disclosure requirements for recipients of external assistance.

This Exposure Draft has been developed following consideration of a project brief by the former Public Sector Committee (PSC) and inputs from the former PSC’s Project Advisory Panel (PAP) based on a Key Decisions Questionnaire. (At its November 2004 meeting, the IFAC Council approved a change in the name of the Public Sector Committee to the International Public Sector Accounting Standards Board (IPSASB)). Additional inputs have been provided by the IPSASB, the PAP, Multilateral Development Banks and the Organization for Economic Development (OECD) – Development Assistance Committee’s Joint Venture on Public Sector Management. This Exposure Draft reflects that reporting requirements for external assistance should be harmonized on the basis of accounting principles followed by the recipient.

Purpose of the Exposure Draft

This Exposure Draft proposes requirements for the disclosure of information about external assistance, including the terms and conditions that apply to external assistance received during the reporting period.

Request for Comments

Comments are invited on any proposals in this Exposure Draft by June 15, 2005. 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 proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.
2. 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 Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 5 would exclude certain assistance received from NGOs.
3. Whether the Exposure Draft should specify the categories of external assistance as required in paragraphs 13-15 or only require the disclosure of external assistance by “major classes” without further specification.
4. The proposal to disclose the balance of, and changes in, undrawn external assistance during the period (paragraph 22).
5. The proposal to disclose the terms and conditions of external assistance agreements as required by paragraphs 26-28 and any non-compliance thereof (paragraph 36).
6. Whether the proposals in paragraph 44 as noted below are appropriate:
 - (a) To disclose the fair value of non-cash goods-in-kind; and
 - (b) That fair value should be based on the prices of equivalent goods or services in the recipient country.
7. Whether the disclosures proposed are appropriate. If the disclosures are considered excessive, the IPSASB would welcome input on which disclosures should not be required. The IPSASB would also welcome input on any key disclosures that have not been dealt with and should be required.
8. Whether the proposal in paragraph 54:
 - (a) For a transition period of two years is sufficient to apply this Standard. Is a longer transitional period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?
 - (b) To exempt the requirement to disclose comparative figures during the first year of application of this Standard is appropriate.

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Disclosure Requirements for Recipients of External Assistance

This Standard should be read in conjunction with the Cash Basis IPSAS. It requires certain disclosures about external assistance. These disclosures are additional to those specified in the Cash Basis IPSAS. The standards, which have been set in bold type, should be read in the context of the commentary paragraphs in this Standard, 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.

Objective

The objective of this Standard is to prescribe the disclosures recipients of external assistance are to make about external assistance provided during the reporting in general purpose financial statements prepared in accordance with the Cash Basis IPSAS.

Scope

1. **This Standard applies 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.**
2. **This Standard applies to all public sector entities other than Government Business Enterprises (GBEs).**
3. The Preface to International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) explains that International Financial Reporting Standards (IFRSs) are designed to apply to the general purpose financial statements of all profit-oriented entities. GBEs are defined in paragraph 4 below. They are profit-oriented entities. Accordingly, they are required to comply with IFRSs and International Accounting Standards (IASs).

Definitions

4. **The following terms are defined in the Cash Basis IPSAS and shall be read with the meaning specified:**

Cash basis means a basis of accounting that recognizes transactions and other events only when cash is received or paid.

Closing rate is the spot exchange rate at the reporting date.

Control of cash arises when the entity can use or otherwise benefit from the cash in pursuit of its objectives and can exclude or regulate the access of others to that benefit.

Exchange difference is the difference resulting from reporting the same number of units of a foreign currency in the reporting currency at different exchange rates.

Exchange rate is the ratio for exchange of two currencies.

Foreign currency is a currency other than the reporting currency of an entity.

Government Business Enterprise means an entity that has all the following characteristics:

- (a) is an entity with the power to contract in its own name;
- (b) has been assigned the financial and operational authority to carry on a business;
- (c) sells goods and services, in the normal course of its business, to other entities at a profit or full cost recovery;
- (d) is not reliant on continuing government funding to be a going concern (other than purchases of outputs at arm's length); and
- (e) is controlled by a public sector entity.

Materiality: information is material if its omission or misstatement could influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of omission or misstatement.

Reporting currency is the currency used in presenting the financial statements.

5. 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.

Balance of Payments Assistance means all official resources received in support of the entity's balance of payments position or to defend a currency exchange rate.

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.

Development Assistance means all official resources received in support of the entity's economic development or welfare objectives.

Emergency Assistance means all official resources received in support of the entity's emergency relief objectives.

An Emergency is an urgent and/or abnormal situation which results in human suffering and/or loss of crops, livestock or physical infrastructure caused by natural or man-made events including war or severe civil unrest, drought, earthquakes, pests, disease or other similar events.

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

Fair Value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Government means national, state/provincial, municipal and other levels of administration/government or their equivalents.

Military Assistance means all official resources received in support of the entity's military and/or defense 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 GBE.

Trade Finance means all official resources received in support of transactions that are primarily trade facilitating in purpose, including export credits or loans offered by Export/Import Banks or other government agencies.

6. Different organizations may use different terminology for the same type or types of assistance. For example, some organizations may use the term military aid rather than military assistance or development aid rather than development 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 this Standard requires a change to current practice. In this context, it should be noted that the term Development Assistance as defined in this Standard is consistent with the term “Official Development Finance” as defined and used by the Organization for Economic Co-operation and Development (OECD).

External Assistance Agreements

7. Governments regularly 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. 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 or a separate emergency assistance meeting may be held. Either meeting usually concludes 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.
8. Trade finance and military assistance normally result from direct bilateral discussions that may also result in statements of intent or pledges which are

DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

not binding on the government or the external assistance agency. Subsequent written agreements may result in trade finance or military 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.

9. Balance of payments assistance usually results from a country inviting external assistance agencies to participate in a program to address the country's balance of payment concerns. Pledges of support or assistance which are not binding on the government or the external assistance agencies may result from meetings to organize a program of assistance. Subsequent written agreements may result in balance of payments 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. Terms and conditions that determine or restrict immediate access to balance of payments funds or to future tranches of funds may have an important impact on macroeconomic policy and revenue and expenditure options available to the country. These terms and conditions plus the funding provided have a direct impact on the sustainability of the country's operations.
10. 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. External assistance agreements usually provide for the draw down or disbursement of funds over more than one accounting period;
 - (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 entity, as defined by the loan or grant agreement.

Payments to a third party may include payments to an NGO settling in cash an obligation of the 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.

Disclosure Requirements under the Cash Basis IPSAS

11. The Cash Basis IPSAS specifies the following requirements in respect of the statement of cash receipts and payments and the disclosure of payments made by third parties:

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“An entity should prepare and present general purpose financial statements which include the following components:

- (a) a statement of cash receipts and payments which:
 - (i) recognizes all cash receipts, cash payments and cash balances controlled by the entity; and
 - (ii) separately identifies payments made by third parties on behalf of the entity in accordance with paragraph 1.3.24 of this Standard; and
- (b) accounting policies and explanatory notes.” (paragraph 1.3.4)

“The statement of cash receipts and payments should present the following amounts for the reporting period:

- (a) total cash receipts of the entity showing separately a sub-classification of total cash receipts using a classification basis appropriate to the entity’s operations;
- (b) total cash payments of the entity showing separately a sub-classification of total cash payments using a classification basis appropriate to the entity’s operations; and
- (c) beginning and closing cash balances of the entity.” (paragraph 1.3.12)

“Total cash receipts and total cash payments, and cash receipts and cash payments for each sub-classification of cash receipt and payment, should be reported on a gross basis, except that cash receipts and payments may be reported on a net basis when:

- (a) they arise from transactions which the entity administers on behalf of other parties and which are recognized in the statement of cash receipts and payments; or
- (b) they are for items in which the turnover is quick, the amounts are large, and the maturities are short.” (paragraph 1.3.13)

“Line items, headings and sub-totals should be presented in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity’s cash receipts, cash payments and cash balances.” (paragraph 1.3.14)

“Where, during a reporting period, a third party directly settles the obligations of an entity or purchases goods and services for the benefit of the entity, the entity should disclose in separate columns on the face of the statement of cash receipts and payments:

- (a) total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity’s operations; and
- (b) total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately a sub-classification of the sources and uses of total payments using a classification basis appropriate to the entity’s operation.

Such disclosure should 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.” (paragraph 1.3.24)

- 12. This Standard requires certain disclosures about cash receipts and payments and third party payments in respect of external assistance and sub-classifications thereof. Disclosures about these matters will be made on the face of the statement of cash receipts and payments consistent with the requirements of the Cash Basis IPSAS. The Cash Basis IPSAS also requires additional note disclosures and in certain cases specifies the basis on which those disclosures are to be made. This Standard also requires additional disclosures to be made about certain aspects of external assistance. The additional disclosures required by this Standard are not inconsistent with, and do not replace, the disclosures required by the Cash Basis IPSAS. Rather, this Standard specifies the additional disclosures about external assistance that are to be made when the cash basis of accounting is adopted.

Additional Disclosure Requirements under this Standard

- 13. **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 received in cash during the period, showing separately:**
 - (a) **Development Assistance;**
 - (b) **Trade Finance;**
 - (c) **Emergency Assistance;**
 - (d) **Military Assistance;**

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- (e) **Balance of Payments Assistance; and**
 - (f) **Other assistance.**
- 14. **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 showing in separate columns:**
 - (a) **Total payments made by third parties which are part of the economic entity to which the reporting entity belongs, showing separately:**
 - (i) **Development Assistance;**
 - (ii) **Trade Finance;**
 - (iii) **Emergency Assistance;**
 - (iv) **Military Assistance;**
 - (v) **Balance of Payments Assistance; and**
 - (vi) **Other assistance.**
 - (b) **Total payments made by third parties which are not part of the economic entity to which the reporting entity belongs, showing separately:**
 - (i) **Development Assistance;**
 - (ii) **Trade Finance;**
 - (iii) **Emergency Assistance;**
 - (iv) **Military Assistance;**
 - (v) **Balance of Payments Assistance, and**
 - (vi) **Other assistance.**
- 15. **Where external assistance is received from more than one provider, the major 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.**
- 16. **Where external assistance is received in the form of loans and grants the total amount received during the period as loans or 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.**

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17. Disclosure of the amount of cash received and third party payments on behalf of the entity will indicate the extent to which the operations of the entity are funded from internal sources or are dependent upon external assistance. Disclosure of the composition of external assistance as required by paragraphs 13 and 14 above will indicate the purpose for which external assistance has been received and the amount of external assistance provided for each category.
18. Disclosure of the major classes of providers of assistance, such as multilateral donors and bilateral donors or 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 and the amount of assistance provided. However, such disclosure is not prohibited. Such disclosure, when there is more than one provider of assistance, will indicate the extent of diversification of sources of assistance.
19. External assistance is usually 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 the Cash Basis IPSAS.
20. 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 or by a GBE. The national government may re-lend or assign the funds received to the other entity or GBE. 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 or GBE 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. Each entity will disclose the terms and conditions of its respective external assistance agreement in its notes to the financial statements in accordance with paragraphs 26 to 28 of this Standard.

21. 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 the Cash Basis IPSAS.

Undrawn External Assistance

22. **The entity shall disclose separately in the notes to the financial statements the opening balance of undrawn external assistance, changes during the period and the closing balance available to fund future operations showing separately:**
- (a) **Total external assistance loans and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:**
 - (i) **the opening balance of undrawn loans, including partially undrawn loans;**
 - (ii) **the amount of new loans approved or otherwise made available during the period;**
 - (iii) **the total amount drawn or utilized during the period;**
 - (iv) **the total amount cancelled during the period;**
 - (v) **total foreign exchange adjustments; and**
 - (vi) **the closing balance of undrawn loans.**
 - (b) **Total external assistance grants and for each of development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance:**
 - (i) **the opening balance of undrawn grants, including partially undrawn grants;**
 - (ii) **the amount of new grants approved or otherwise made available during the period;**
 - (iii) **the total amount drawn or utilized during the period;**
 - (iv) **the total amount cancelled during the period;**
 - (v) **total foreign exchange adjustments; and**
 - (vi) **the closing balance of undrawn grants.**
23. **The entity shall disclose separately in the notes to the financial statements the total undrawn external assistance by major source(s), by**

loan or grant and the currency or currencies in which the external assistance is denominated.

24. Disclosure of the amount of external assistance currently committed under a written agreement(s) but not yet drawn down will indicate the extent to which the entity may avail itself of external assistance to sustain its operations in the future. Disclosure of undrawn external assistance by the categories noted above will indicate the extent to which assistance is available for each category or activity in the future. Undrawn external assistance balances may be significant and their disclosure, together with the terms and conditions that limit or otherwise affect current or future access to the funds, 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. Disclosure of non-compliance with any terms and conditions of external assistance is also beneficial to the readers of the financial statements' determination of whether funds will be available to support the entity's future operations. External assistance provided without a written agreement would not result in a balance of undrawn external assistance.
25. External assistance denominated in a foreign currency and approved, drawn, utilized or cancelled during the accounting period 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. Opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the respective dates. The note will also disclose the amount of exchange differences included as reconciling items between opening and closing undrawn external assistance balances for the period.

Terms and Conditions of External Assistance Loans or Grants

26. **The entity shall disclose separately in the notes to the financial statements the terms and conditions contained in the agreements that determine or effect access to external assistance as well as terms and conditions that limit the use of such funds.**
27. **The entity shall disclose separately in the notes to the financial statements terms and conditions contained in the agreements that apply throughout the life of the external assistance agreement, and which, if in default, may result in suspension, cessation or repayment of some or all external assistance funds provided under the agreements.**
28. **The entity shall disclose separately in the notes to the financial statements terms and conditions of any Balance of Payments Assistance**

agreement, other than foreign exchange rate targets, foreign exchange intervention levels and other foreign exchange market sensitive data.

29. 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 what those actions are. Some external assistance may be released on specific dates. In other cases, external assistance release may be dependent upon the entity undertaking actions specified in an external assistance agreement, such as implementing specific policy changes prior to the release of the external assistance. 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 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.
30. Disclosure of an entity's receipt of balance of payments assistance indicates that concerns exist regarding its ability to meet or manage its foreign exchange reserve requirements. This may impact its ability to raise additional foreign capital, its ability to service debt denominated in foreign currency and its ability to import goods and services invoiced in foreign currency. The terms and conditions of a balance of payments agreement may include macroeconomic targets including budget deficit targets, establishment of a financial sector asset recovery or management agency or other broad economic recovery or management objectives. Disclosure of those terms and conditions provide details of the performance criteria the entity must meet to access or continue accessing balance of payments assistance.
31. The terms and conditions of balance of payments assistance may include a policy reform agenda similar to that for certain forms of development assistance. The determining factor in differentiating between these types of assistance would be the intended purpose or objective of the assistance. When the policy agenda focuses on domestic macroeconomic or sector issues and/or the domestic currency proceeds of the assistance are utilized for budget support, development assistance is indicated. Balance of payments assistance is indicated when the policy agenda includes a focus on issues relevant to stabilization of the national currency exchange rate, and/or when the domestic proceeds of the assistance are "neutralized" or "sanitized" by the issuance of domestic bonds in a similar amount or by other means to minimize the effect of the assistance on domestic money supply. Balance of payments assistance is indicated when the assistance

provided is part of, or is associated with, a rescheduling, deferral or cancellation of some or all of the entity's sovereign debt.

32. The exchange rate of the currency of a country receiving balance of payments assistance may experience some market fluctuation. In order to stabilize the exchange rate, the government and an external assistance agency may agree on exchange rate targets for the domestic currency versus convertible currencies, foreign currency market intervention levels or other market sensitive information. Disclosure of this type of information may undermine the immediate objective of stabilizing the currency exchange rate. Therefore it does not need to be disclosed.

Guarantees

33. **The entity shall disclose separately in the notes to the financial statements:**
- (a) the outstanding balance of any loans, and any terms and conditions relating to such loans, for which performance has been guaranteed by a third party or parties. The entity shall also disclose any additional terms and conditions resulting from the guarantee agreement; and**
 - (b) terms and conditions attaching to grants that have been guaranteed by a third party or parties. The entity shall also disclose any additional terms and conditions resulting from the guarantee agreement.**
34. External assistance may consist of a guarantee of the balance of a loan borrowed by an entity, in total or up to a specified amount, or a guarantee of performance of some action under the loan, such as payment of interest or setting tariffs according to an agreed formula. Grants may also be subject to terms and conditions which are guaranteed by third parties.
35. Disclosure of the outstanding balance of any external assistance loans guaranteed and any terms and conditions of any such loans for which performance of the terms and/or the conditions has been guaranteed would indicate the extent of, or need for, support from another entity to obtain the benefits of the external assistance agreement. Disclosure of the terms and conditions set as part of the guarantee agreement indicates the additional performance agreement that arises as a consequence of the guarantee. Disclosure of the terms and conditions that are attached to grants will also be relevant in identifying the performance criteria the entity must meet to avail or continue availing itself of the grant and/or the guarantee.

Noncompliance with Terms and Conditions of External Assistance Loans, Grants or Guarantees

36. **The entity shall disclose separately in the notes to the financial statements any terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with together with the consequence of the noncompliance.**
37. Disclosure of the terms and conditions of an external assistance agreement that have not been complied with usually indicates what actions need to be taken to re-establish compliance with the agreement and indicates that the consequences specified by the agreement may be applied. Disclosure of the consequences will indicate the lost opportunities or cost to the entity. Consequences stated in the agreement may include cessation of rights to draw funds under the affected agreement until the default is corrected, repayment of a portion of the funds already drawn down or repayment of the entire balance of the funds 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.
38. Any violation of the terms and conditions of an external assistance agreement has immediate impact on the entity's expectations for future cash flow under that agreement and possibly other agreements.

Repayment Terms of External Assistance Loans

39. **The entity shall disclose separately in the notes to the financial statements summarized data specifying the repayment terms and conditions covering all outstanding external assistance debt, including at least: the grace period; interest rate; current debt service payments; future debt service payments; remaining term of the loan; currency of debt service payments; and any other significant repayment terms.**
40. **Disclosure of future debt service payments for outstanding external assistance debt denominated in a foreign currency shall be reported in the entity's reporting currency by applying to the foreign currency amount the closing rate. Where debt service payments consist of only interest or other service charges with principal repayment deferred until the term of the loan, or some other future date, these principal repayment requirements shall be disclosed separately. Future debt service payments for variable rate debt shall be estimated based on applicable interest rates at the closing date.**
41. Disclosure of the specified terms and conditions will indicate when debt service (principal and interest or service charges) will commence and the

DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

amount of principal and interest or service charge, if any, payable. Debt service payments may be a significant cash outlay for the entity and will impact on cash available to fund current operations as well as the entity's ability to fund further operations.

42. Disclosure of the currency of debt service payments indicates the nature of the foreign exchange risk, if any, associated with the future repayment of external assistance. Disclosure of future annual debt service payments indicates the impact of debt service on future cash resources.
43. External assistance loans usually include concessional repayment terms and interest rates relative to those the entity would receive from commercial sources. Grace periods associated with external assistance loans often defer initial debt service payments for several years from the commencement of the project or program.

Receipt of Goods or Services In-kind

44. **The entity shall disclose separately in the notes to the financial statements the fair value of goods or services received in-kind measured in the economy of the recipient as of the date of receipt. Where fair value in the economy of the recipient is not determinable, fair value in the world market shall be used. Where goods are not traded internationally, fair value in the donor's economy shall be used.**
45. Disclosure of the value of goods or services received in-kind under an external assistance agreement will indicate the extent of external assistance received as goods or services in-kind.
46. In some cases, used goods such as naval vessels, vehicles, computers or other equipment may be transferred to the ownership of an entity under an external assistance agreement. The original purchase price may not reflect fair value at the time the assets are transferred to the recipient because the assets may be several years old and have been used. Fair value in the recipient's economy as of the date the recipient gains control of the assets will be determined and used as the basis for reporting the value of goods received.
47. In other cases, food aid may be provided under an external assistance agreement to an entity for distribution to its citizens. The price paid for the food by the external assistance agency may reflect prices in the provider's economy which may be different from the price for identical items in the recipient's economy. The fair value used to reflect the receipt of these goods will be the fair value for the specific goods provided in the recipient's economy as of the date of receipt.

48. Emergency relief goods and services provided during a time of crisis, such as war, famine or earthquake may not result from a written agreement between the provider of the goods and services and a recipient entity. In addition, the recipients may be individual citizens of a country in which case there is no receipt of goods or services by a government or entity reporting under this Standard. Where the government is identified as the recipient of emergency assistance, the value of goods or services received is disclosed in the notes to the financial statements.
49. Market prices for goods or services received may not be determinable in the recipient's economy, in which case world market prices for internationally traded goods will be used. Where goods are not internationally traded the fair value of the goods and services in the donor's economy will be used.

Disclosure of Rescheduled or Cancelled External Assistance Debt

50. **The entity shall disclose separately in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled as part of a plan to restructure the entity's debt, together with the terms and conditions associated with the restructuring of the entity's debt.**
51. An entity experiencing difficulty in servicing its external assistance debt may seek renegotiation of the terms and conditions of the debt. Separate disclosure of the restructuring arrangements, including the amount of external assistance debt rescheduled, cancelled or partly rescheduled cancelled, will be disclosed separately in the notes to the financial statements. A new set of terms and conditions covering the debt rescheduled, including the maturity date, interest rate, debt service payments and other conditions may result. The renegotiated or revised terms and conditions of the rescheduled external assistance debt will be disclosed separately in accordance with paragraphs 26 to 28 and 39 of this Standard.

Transitional Provisions

52. **Entities are not required to disclose separately in the notes to the financial statements the opening or closing balance or changes during the period in the balance of undrawn external assistance for a period of two years from the date of first adoption of this Standard.**
53. **Entities are not required to disclose comparative figures in the Statement of Cash Receipts and Payments or in the notes to the financial statements in the first year of application of this Standard.**

54. **When an entity applies the transitional provisions in paragraph 52 and/or 53, it shall disclose that fact.**
55. Entities that adopt this Standard for the first time may not have readily available, or reasonable access to, the information necessary to provide comparative information on initial application of this Standard, or to satisfy the requirements of this Standard to disclose the information about opening and closing balances of undrawn external assistance received, and changes therein during the reporting period. To provide for an orderly introduction of the requirements of this Standard, paragraph 52 provides relief from the requirements in paragraphs 22 to 24 for a period of two years from initial application. Paragraph 53 also provides relief from the requirement to disclose comparative figures in the first year of application of this Standard. However, to ensure users are informed of the extent to which the requirements of this Standard have been complied with, paragraph 54 requires that entities that make use of these transitional provisions disclose that they have done so.

Effective Date

56. **This IPSAS becomes effective for annual financial statements covering periods beginning on or after XX XX 200X. Earlier application is encouraged.**

**Appendix 1: Illustration of the Disclosure of External Assistance
by a Government**

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 years. 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.

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

External Assistance Received by a Government

(Paragraphs 13, 14, 15 and 16)

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	<-----200X----->			<-----200X-1----->		
		Cash Receipts	Payments by third parties	Total	Cash Receipts	Payments by third parties	Total
RECEIPTS							
<i>Taxation</i>							
Income tax		X	-	X	X	-	X
Value-added tax		X	-	X	X	-	X
Property tax		X	-	X	X	-	X
Other taxes		X	-	X	X	-	X
		X	-	X	X	-	X
<i>External Assistance</i>							
Borrowed Funds	1						
Multilateral agencies		X	X	X	X	X	X
Bilateral agencies		X	X	X	X	X	X
		X	X	X	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

(in thousands of currency units)	Note	<-----200X----->			<-----200X-1----->		
		Cash Receipts	Payments by third parties	Total	Cash Receipts	Payments by third parties	Total
Grants							
Multilateral agencies		X	X	X	X	X	X
Bilateral agencies		X	X	X	X	X	X
<i>Total External Assistance</i>		X	X	X	X	X	X
<i>Capital Receipts</i>							
Proceeds from disposal of plant and equipment		X	-	X	X	-	X
<i>Trading Activities</i>							
Receipts from trading activities		X	-	X	X	-	X
<i>Other receipts</i>		X	-	X	X	-	X
Total receipts		X	X	X	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

Note 1 External Assistance
(Paragraphs 13, 15, and 16)

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	Trade Finance	<u>200X</u> Emergency Assistance	Military Assistance	Bal of Pay Assistance	Total
<u>Borrowed Funds</u>						
Multilateral Agencies	X	-	-	-	X	X
Bilateral Agencies	X	X	-	X	-	X
Total	X	X	-	X	X	X
<u>Grant Funds</u>						
Multilateral Agencies	X	-	X	-	-	X
Bilateral Agencies	X	-	X	X	-	X
Total	X	-	X	X	-	X
Total External Assistance	X	X	X	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

	Development Assistance	Trade Finance	<u>200X-1</u> Emergency Assistance	Military Assistance	Bal of Pay Assistance	Total
<u>Borrowed Funds</u>						
Multilateral Agencies	X	-	-	-	X	X
Bilateral Agencies	X	X	-	X	-	X
Total	<u>X</u>	<u>X</u>	<u>-</u>	<u>X</u>	<u>X</u>	<u>X</u>
<u>Grant Funds</u>						
Multilateral Agencies	X	-	-	-	-	X
Bilateral Agencies	X	-	-	-	-	X
Total	<u>X</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>X</u>
Total External Assistance	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>	<u>X</u>

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

Note 2 Undrawn External Assistance

(Paragraphs 22, 23, and 33)

Undrawn external assistance – Loans

Undrawn external assistance loans consist of the amount of external assistance loans agreed with external assistance agencies that have not been utilized at the close of the fiscal year. External assistance cancelled resulted from overestimation of the cost of development projects and in the case of trade finance and military assistance from expired deadlines.

	<u>200X</u>					
	Development Assistance	Trade Finance	Emergency Assistance	Military Assistance	Bal. of Pay. Assistance	Total
Opening balance	X	X	-	X	X	X
External assistance approved	X	X	X	X	X	X
Total available	X	X	X	X	X	X
External assistance received	X	X	X	X	X	X
External assistance cancelled	(X)	(X)	-	(X)	-	(X)
Exchange difference	X	X	-	X	X	X
Closing balance	X	X	-	X	X	X
Closing balance available by currency						
US Dollar	X	X	-	X	X	X
Euro	X	X	-	X	-	X
Yen	X	X	-	-	-	X
Other	X	-	-	-	-	X
Total	X	X	-	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

	Development Assistance	Trade Finance	<u>200X-1</u> Emergency Assistance	Military Assistance	Bal. of Pay. Assistance	Total
Opening balance	X	X	-	X	X	X
External assistance approved	X	X	-	X	X	X
Total available	X	X	-	X	X	X
External assistance received	X	X	-	X	X	X
External assistance cancelled	(X)	(X)	-	-	-	X
Exchange difference	X	X	-	X	X	X
Closing balance	X	X	-	X	X	X
Closing balance available by currency						
US Dollar	X	X	-	X	X	X
Euro	X	X	-	X	-	X
Yen	X	X	-	-	-	X
Other	X	-	-	-	-	X
Total	X	X	-	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

Undrawn external assistance – Grants

Undrawn external assistance grants consist of the amount of external assistance grants agreed with external assistance agencies that has not been utilized at the close of the respective fiscal year ends.

	<u>200X</u>					
	Development Assistance	Trade Finance	Emergency Assistance	Military Assistance	Bal. of Pay. Assistance	Total
Opening balance	X	-	-	-	-	X
External assistance approved	X	-	X	X	-	X
Total available	X	-	X	X	-	X
External assistance received	X	-	X	X	-	X
External assistance cancelled	(X)	-	-	-	-	(X)
Exchange difference	X	-	-	-	-	X
Closing balance	X	-	-	-	-	X
Closing balance available by currency						
US Dollar	X	-	-	-	-	X
Euro	X	-	-	-	-	X
Yen	X	-	-	-	-	X
Other	X	-	-	-	-	X
Total	X	X	-	-	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

	Development Assistance	Trade Finance	200X-1 Emergency Assistance	Military Assistance	Bal. of Pay. Assistance	Total
Opening balance	X	-	-	-	-	X
External assistance approved	X	-	-	-	-	X
Total available	X	-	-	-	-	X
External assistance received	X	-	-	-	-	X
External assistance cancelled	(X)	-	-	-	-	(X)
Exchange difference	X	-	-	-	-	-
Closing balance	X	-	-	-	-	X
Closing balance available by currency						
US Dollar	X	-	-	-	-	X
Euro	X	-	-	-	-	X
Yen	X	-	-	-	-	X
Other	-	-	-	-	-	-
Total	X	-	-	-	-	X

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.

Note 3 Access to External Assistance

(Paragraphs 26, 27, 28, 33 and 36)

General Restrictions

The balance of commitments or undrawn 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 as the basis 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 state owned enterprises and by focusing expenditures within the poverty reduction strategy. Fiscal expenditures will be increased for the agricultural, health and education 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.

The tables below indicate the extent to which external assistance is subject to agreed actions or performance targets. After adherence to these agreed actions or performance targets, the funds then become available and may be used to procure goods or services, subject to certain procurement restrictions described below.

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

	<u>200X</u>			<u>200X-1</u>		
	Balance of Payments or Budget Support Loans and Grants			Specific Purpose Loans and Grants		
	<u>Unrestricted Subject to</u>	<u>Total</u>	<u>Total</u>	<u>Unrestricted Subject to</u>	<u>Total</u>	<u>Total</u>
Development Assistance	X	X	X	-	X	X
Trade Finance	-	-	-	-	X	X
Military Assistance	-	-	-	-	X	X
Balance of Payments Assistance	-	X	X	-	-	-
Total	X	X	X	-	X	X
Development Assistance	X	X	X	-	X	X
Trade Finance	-	-	-	-	X	X
Military Assistance	-	-	-	-	X	X
Balance of Payments Assistance	-	X	X	-	-	-
Total	X	X	X	-	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

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.

	Balance of Payments or Budget Support			<u>200X</u>			
	<u>Loans and Grants</u>			Specific Purpose			
	<u>Unrestricted Subject to</u>		<u>Total</u>	<u>Loans and Grants</u>		<u>Total</u>	<u>Total</u>
Development Assistance	-	X	X	-	X	X	X
Trade Finance	-	-	-	-	X	X	X
Military Assistance	-	-	-	-	X	X	X
Balance of Payments Assistance	X	-	X	-	-	-	X
Total	X	X	X	-	X	X	X

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

	<u>200X-1</u>					
	Balance of Payments or Budget Support			Specific Purpose		
	<u>Loans and Grants</u>			<u>Loans and Grants</u>		
	<u>Unrestricted Subject to</u>	<u>Total</u>	<u>Unrestricted Subject to</u>	<u>Total</u>	<u>Total</u>	
Development Assistance	-	X	X	-	X	X
Trade Finance	-	-	-	-	X	X
Military Assistance	-	-	-	-	X	X
Balance of Payments Assistance	X	-	X	-	-	-
Total	X	X	X	-	X	X

Guarantees

Guarantees issued by the Government of YYYY covering a commercial debt in the amount of US Dollars XXX (200X-1: US Dollars Nil) applies only to goods manufactured in YYYY.

Non-Compliance with Covenants or Restrictions

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.

Note 4 Debt Service Obligations

(Paragraphs 39 and 40)

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 finance debt are:

- Trade 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.

Military Assistance terms do not include grace periods. Interest rates are fixed. They range from 8.0 percent to 8.85 percent for debt denominated in US Dollars, with a weighted average of 8.43 percent; and 8.0 percent to 8.75 percent for debt denominated in Euros, with a weighted average of 8.45 percent.

Balance of Payments 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.

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

<u>200X</u>				
Outstanding Debt by Remaining Grace Period Years				
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Trade Finance	X	-	-	X
Military Assistance	X	-	-	X
Balance of Payments Assistance	X	-	-	X
Total	X	X	X	X

<u>200X-1</u>				
Outstanding Debt by Remaining Grace Period Years				
	Expired	0 – 4	5 – 7	Total
Development Assistance	X	X	X	X
Trade Finance	X	-	-	X
Military Assistance	X	-	-	X
Balance of Payments Assistance	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 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.

Military 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.

Balance of Payments Assistance loans include a Poverty Reduction and Growth Facility with a repayment period of 9 years and an Extended Fund Facility with a repayment period of 6 years. In both cases debt service is based on a fixed payment of principal plus interest accrued.

EXPOSURE DRAFT
DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

200X

Debt Service Payments Including Interest

US

	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Trade Finance	X	X	X	-	X
Military Assistance	X	X	-	-	X
Balance of Payments Assistance	X	-	-	-	X
Total	X	X	X	X	X

200X-1

Debt Service Payments Including Interest

US

	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Trade Finance	X	X	X	-	X
Military Assistance	X	X	-	-	X
Balance of Payments Assistance	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

	Dollar	Euro	Yen	Other	Total
Development Assistance	X	X	X	X	X
Trade Finance	X	X	X	-	X
Military Assistance	X	X	-	-	X
Balance of Payments Assistance	X	-	-	-	X
Total	X	X	X	X	X

Note 5 Receipt of Goods and Services In-Kind

(Paragraph 44)

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 2: Illustration of the Disclosure of External Assistance by a Project Specific Entity

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 project specific entity that has received external assistance loans and grants during the current and preceding years. 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.

INTERNATIONAL PUBLIC SECTOR
ACCOUNTING STANDARD BOARD IPSAS XX

Illustration of the Disclosure of External Assistance by a Project Specific Entity

Development Assistance Re-lent to an Individual Project

**URBAN WATER SUPPLY PROJECT
STATEMENT OF RECEIPTS AND PAYMENTS
(RECEIPTS ONLY)**

	<u>200X</u>				<u>200X-1</u>			
	<u>Cash Receipts</u>	<u>Paid by Third Party</u>		<u>Total</u>	<u>Cash Receipts</u>	<u>Paid by Third Party</u>		<u>Total</u>
		<u>Related</u>	<u>Unrelated</u>			<u>Related</u>	<u>Unrelated</u>	
MMM Development Bank	-	-	X	X	-	-	X	X
CCC Bilateral Agency	-	-	X	X	-	-	X	X
National Government	X	X	-	X	X	X	-	X
Total	X	X	X	X	X	X	X	X

Note 1 - Undrawn External Assistance

(Paragraph 22 and 23)

Undrawn external assistance consists of development assistance agreed to be provided by the National Government to fund the Urban Water Supply System from funds lent to the National Government by the MMM Development Bank, the CCC Bilateral Agency and from its own resources. Funds provided from the MMM Development Bank and the CCC Bilateral Agency have been lent by the National Government to the Urban Government in the currencies received from the external assistance agencies.

Changes in undrawn external assistance:

	200X			200X-1		
	Loan	Grant	Total	Loan	Grant	Total
Opening balance	X	X	X	X	X	X
Additional development assistance	-	X	X	-	-	X
Total available	X	X	X	X	X	X
Development assistance utilized	X	X	X	X	X	X
Development assistance cancelled	-	(X)	(X)	(X)	(X)	(X)
Exchange difference	X	X	X	X	X	X
Closing balance	X	X	X	X	X	X

Undrawn External Assistance originated from the following sources and is denominated in the following currencies:

	200X			
	US Dollar	Euro	Local	Total
MMM Development Bank	X	-	-	X
CCC Bilateral Agency	-	X	-	X
National Government	-	-	X	X
Closing Balance	X	X	X	X

	200X-1			
	US Dollar	Euro	Local	Total
MMM Development Bank	X	-	-	X
CCC Bilateral Agency	-	X	-	X
National Government	-	-	X	X
Closing Balance	X	X	X	X

Note 2 - Restrictions on Development Assistance

(Paragraphs 26, 27 and 36)

General Restrictions

Loans provided by the National Government are on the same terms and conditions as the original loan from the external assistance agencies. Loans originating from the MMM Development Bank and the CCC Bilateral Agency require that the water supply utility set water tariffs at a level to cover the cost of providing potable water, the proper maintenance of all assets and to provide a reasonable contribution to the replacement and renewal of existing assets. Both loans are guaranteed by the National Government for which a fee of 0.25 percent of the outstanding loan amount is charged. No other conditions result from the guarantee. Additional funds from the National Government have been provided as a grant.

Procurement Restrictions

Procurement financed under the MMM Development Bank loan is limited to an agreed list of water purification equipment, distribution pipes and other equipment as well as services needed to increase the capacity of the water supply system to agreed levels. All procurement must take place utilizing agreed international competitive bidding procedures. All goods and services must be manufactured in or supplied from one or more of the 55 member countries of the MMM Development Bank.

Procurement financed under the CCC Bilateral Agency loan is limited to financing a contract to develop a ground water field on land owned by the city and leased to the utility. The services must be procured from a firm located in CCC Country using agreed competitive bidding procedures, except that up to twenty percent of the agreed loan amount may be used to procure domestic goods and services ancillary to the main drilling contract.

Procurement utilizing funds from the National Government grant must follow standard government procurement regulations.

Compliance with Loan Covenants

The Urban Water Supply System has complied with all loan covenants including performance covenants and other covenants requiring submission of audited annual financial statements and has followed all respective procurement regulations.

Note 3 – Debt Service Obligations

(Paragraphs 39 and 40)

Development Assistance received from the National Government utilizes funds originating from the MMM Development Bank and the CCC Bilateral Agency on the same terms and conditions as received by the National Government from these respective external assistance agencies.

EXPOSURE DRAFT

DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

The loan originating from the MMM Development Bank, for an amount not to exceed US \$XXX (XXXX Domestic currency units), has been drawn down in various currencies equivalent to US \$XX (XXX Domestic currency units) to pay suppliers in their required currencies. Interest is payable semi-annually at a rate of 5.75 percent on the outstanding balance. The loan is currently within the second year of a five year grace period. Interest payable during the grace period is financed under the loan. Debt service will commence in 200X + 6 based on fixed semi-annual payments for 20 years plus accrued interest.

The loan originating from the CCC Bilateral Agency, for an amount not to exceed Euro XXX (XXXX Domestic currency units), has been drawn down to pay the foreign drilling contract and domestic contractors in the amount of Euro XX (XXX Domestic currency units). The loan is in the second year of a five year grace period. Interest is accruing at the rate of 5.50 percent and is payable semi-annually. Interest is financed from the proceeds of the grant from the National Government during the grace period. Debt service will commence in 200X+6 based on fixed semi-annual payments for 15 years plus accrued interest.

Debt service payments for 200X+6 and subsequent years are based on a fixed payment of principal plus accrued interest. Interest payments are based on the estimated outstanding balance of each loan at the end of year 200X+5 and the fixed interest rates set under each loan. Debt service payments denominated in foreign currencies have been determined by applying the closing rate of exchange on the date of these financial statements to the foreign currency amount.

200X+6 and Subsequent Years

	US Dollar	Euro	Total
MMM Development Bank	X	-	X
CCC Bilateral Agency	-	X	X
Closing Balance	X	X	X

Appendix 3: Rescheduled or Cancelled Debt

This appendix discusses the circumstances involved in rescheduling or canceling sovereign debt and the impact on the entity's financial statements.

1. 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.

2. 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 as well as the amount of medium to long term debt that will be addressed.
3. 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.
4. 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

DISCLOSURE REQUIREMENT FOR RECIPIENTS OF EXTERNAL ASSISTANCE

multilateral agencies such as the International Monetary Fund (IMF), the World Bank or the regional development banks is not eligible for Paris Club consideration.

5. 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 (HIPC 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 prepay 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.
6. 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.
7. 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 renegotiated terms and conditions consistent with disclosure requirements specified in this Standard. The required note on compliance with all loan covenants should disclose the entity's inability to service its debt(s) and the principal terms of the rescheduling. Furthermore, any 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, should be disclosed. Rescheduling or cancellation of sovereign debt due to an immediate or anticipated inability to service the debt is a material event and should be fully disclosed in the notes to the financial statements.
8. 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

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accordance with the provisions of this Standard. A third party payment(s) of debt amortization obligations as part of debt relief is a material event and should be shown separately in accordance with the provisions of this Standard with a reference to the note describing the debt relief.

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

Appendix 4: Basis for Conclusions

This appendix gives reasons for supporting or rejecting certain solutions related to disclosure of external assistance by recipients. It refers to the Public Sector Committee (PSC) of IFAC as well as to the International Public Sector Accounting Standards Board (IPSASB). At its November 2004 meeting, the IFAC Council approved a change in the name of the PSC, to the IPSASB.

Introduction – 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 some cases, they require the recipient to follow accounting standards generally practiced in the donor country – including the accrual basis of accounting when the recipient’s accounting system is on the cash basis of accounting. Consequently, the recipient may 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 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, which in many cases have insufficient staff with the requisite skills. Consequently, timely submission of required financial statements is often delayed.
- BC3. In some cases, providers of external assistance, that rely on the recipient’s national public sector accounting standards, receive financial statements from their portfolio of projects that are prepared on a number of different bases. In some cases, these financial statements are not sufficiently transparent or complete to permit a meaningful assessment of the receipt and use of assistance funds. Where the financial statements isolate and account for only the provider’s funds, the financial statements may not present a holistic view of the project’s total investment cost and all sources of funding. The IPSASB is of the view that narrowly focused financial statements do not indicate the extent to which the reporting entity is “aid dependent”.
- BC4. The IPSASB is of the view that the preparation of financial statements in accordance with an International Public Sector Accounting Standard (IPSAS) on external assistance provides a mechanism 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.

Cash and Accrual Bases of Accounting

- BC5. The IPSASB developed this proposed Standard in response to a request from the OECD Development Assistance Committee and the Multilateral Development Banks' Financial Harmonization Working Group. It responds to a common need for the development of an international generally accepted accounting standard addressing the receipt of external assistance by governments and other public sector entities which adopt the cash basis of accounting. The vast majority of recipients of external assistance utilize the cash basis of accounting.
- BC6. 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 non-exchange revenue under the accrual basis of accounting. That project will lead to requirements that will establish broad principles applicable 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.

Scope of this Standard and Definition of External Assistance

- BC7. This project initially focused on development assistance. The PSC's Project Advisory Panel, and other major constituents, advocated that the scope of the project be widened to address all official external assistance, and require disclosure of major components of external assistance. The PSC responded positively to that input and expanded the scope of the exposure draft to include all official external assistance.
- BC8. External assistance has been 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 major recipients, donors and industry representative organizations. While there is currently no single definition of external assistance adopted by all recipients and donors, the IPSASB is of the view that this definition captures the major features of the definitions currently in use, and is appropriate.

Disclosure of the Terms and Conditions of External Assistance Agreements

- BC9. This proposed IPSAS requires disclosure of the total amount of external assistance received in cash or paid to settle third party claims during the

period. It also requires the separate disclosure of the major classes thereof, being development assistance, trade finance, emergency assistance, military assistance and balance of payments assistance. The amounts of external assistance that have not yet been drawn down, and the terms and conditions that govern the draw down, or may otherwise limit access to external assistance, are also required to be disclosed. The IPSASB is of the view that these 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, and are central to any assessment of the sustainability of ongoing operations. In this context, the IPSASB is of the view that:

- The 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 what those actions are. This will inform the reader that the entire amount of undrawn external assistance may not be available for immediate draw down in cash and will advise under what circumstances external assistance will be made available and whether it may be used for general budget purposes or must be used to finance specified investments.
- Disclosure of an entity's receipt of Balance of Payments Assistance indicates that concerns exist regarding its ability to meet or manage its foreign exchange reserve requirements. This may impact its ability to raise additional foreign capital, its ability to service debt denominated in foreign currency and its ability to import goods and services invoiced in foreign currency. Disclosure of the terms and conditions of a balance of payments agreement provide details of the performance criteria the entity must meet to access or continue accessing balance of payments assistance. Examples of the terms and conditions are macroeconomic targets including budget deficit targets, establishment of a financial sector asset recovery or management agency or other broad economic recovery and management objectives.
- Information about noncompliance with any terms and conditions of the external assistance agreement together with the consequence of noncompliance will indicate whether external assistance may continue to be received and/or whether penalties may be imposed.

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

- BC10. Recipients of external assistance may receive the proceeds 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 the third party. 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. In these circumstances, the external assistance agency 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. As such, the proposed IPSAS requires that they are reported in a separate column on the face of the Statement of Receipts and Payments.

- BC11. In some cases, the external assistance agreement provides that the external assistance agency will provide specified goods or services to the recipient. The external assistance agency determines the specification of the goods or services, procures them, and then provides them to the recipients as goods or services in-kind. An important form of this type of assistance is food aid. The external assistance received is the goods or services offered. The external assistance agency does not provide cash to the recipient nor settle the recipient's obligations. In these cases, there is no cash transaction involving the recipient. Therefore, the receipt of goods or services in-kind is not reported on the face of the Statement of Receipts and Payments. However, the IPSASB is of the view that the receipt of goods or services may be an important source of external assistance, and this proposed Standard requires that the fair value of goods or services received in-kind be reported in the notes to the financial statements.

Transition period

- BC12. This proposed Standard applies only to entities reporting under the cash basis of accounting. However, it also requires note disclosure of such matters as opening and closing balances of undrawn external assistance. Best practices of program/project financial management include careful tracking of undrawn resources available to complete program/project objectives. However, opening and closing balances of undrawn external assistance may not be readily available in some recipient's records.
- BC13. Multilateral and bilateral agencies usually maintain detailed records of external assistance provided 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.
- BC14. In some cases, this notification is sent only to the implementing agency and may not be sent 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, the amount should be readily available from external assistance agencies. Information about the currencies used in a transaction involving external assistance is usually included in the notification of the transaction and daily exchange rates between major currencies. Exchange rates for the domestic currency of the recipient country against major currencies are also readily available for accounting for transactions denominated in a foreign currency. As such, 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. However, the IPSASB acknowledges that in some cases it may not be practicable to gather all the relevant data about transactions and balances of previous periods and does not require that comparatives be prepared for the first year of operation of this Standard.