

**Guarantees given by
Governments:
Disclosure Requirements**

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Indian Government Accounting Standard (IGAS) 1

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*The standards, which have been set in **bold italic** type, should be read in the context of the explanatory paragraphs in this Standard, which are in plain type. The Indian Government Accounting Standards are not intended to apply to immaterial items.*

Introduction

1. The Union Government and the State Governments give Guarantees for repayment of borrowings within such limits, if any, as may be fixed upon the security of the Consolidated Fund of India or of the State, as the case may be, in terms of Articles 292 and 293 of the Constitution of India. Guarantees are also given by the Union Government for payment of interest on borrowings, repayment of share capital and payment of minimum annual dividend, payment against agreements for supplies of materials and equipments on credit basis on behalf of State Governments, Union Territories, local bodies, railways, government companies/ corporations, joint stock companies, financial institutions, port trusts, electricity boards and co-operative institutions. Guarantees are also given by the Union Government to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital in respect of companies, corporations, co-operative societies and co-operative banks. Further, Guarantees are also given in pursuance of agreements entered into by the Union Government with international financial institutions, foreign lending agencies, foreign governments, contractors and consultants towards repayment of principal, payment of interest and payment of commitment charges on loans. The Union Government also gives performance guarantees for fulfilment of contracts/projects awarded to Indian companies in foreign countries as well as foreign companies in foreign countries besides counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies/ services made/ rendered by them on credit basis in favour of companies/ corporations. Furthermore, Guarantees are given by the Union Government to railways, and electricity boards for due and punctual payment of dues and freight charges by the companies and corporations. Similarly, Guarantees are also given by the State Governments.

2. As the statutory corporations, government companies, co-operative institutions, financial institutions, autonomous bodies and authorities are distinct legal entities, they are responsible for their debts. Their financial obligations may be guaranteed by a Government and thus the Government has a commitment to see that these are fulfilled. When these entities borrow directly from the market, it reduces a Government's budgetary support to them and the magnitude of a Government's borrowings. However, it adds to the level of Guarantees given by the Governments. In consideration of the Guarantees given by the Governments, the beneficiary entities are required to pay guarantee commission or fee to the Governments. The Guarantees have an important economic influence and result in transactions or other economic flows when the relevant

event or conditions actually occur. Thus, Guarantees normally constitute contingent liability of the Governments.

Objective

3. The objective of this Standard is to set out disclosure norms in respect of Guarantees given by the Union and the State Governments in their respective Financial Statements to ensure uniform and complete disclosure of such Guarantees.

Scope

4. *This Standard applies to preparation of the Statement of Guarantees for inclusion and presentation in the Financial Statements of the Governments. Financial Statements should not be described as complying with this Standard unless these comply with all its requirements.*

5. *The Authority in the Government which prepares the Statement of Guarantees for inclusion and presentation in the Financial Statements shall apply this Standard. The Accounting Authority is responsible for inclusion and presentation of the Statement of Guarantees in the Financial Statements as provided by the Authority in the Government.*

Definitions

6. *In this Standard, unless the context otherwise requires -*

Accounting Authority is the authority which prepares the Financial Statements of the Government;

Authority in the Government is the tracking (monitoring) unit or authority for guarantees and in its absence, the Ministry or the Department of Finance, as the case may be;

Automatic Debit Mechanism is the arrangement whereby the Government's cash balance is affected on a specified date or on the occurrence of specified events to meet certain obligations arising out of Guarantees given by it;

Financial Statements mean the Annual Finance Accounts of the Governments;

Guarantee is an accessory contract, by which the promisor undertakes to be answerable to the promisee for the debt, default or miscarriage of another person, whose primary liability to the promisee must exist or be contemplated; and

Structured Payment Arrangement is the arrangement whereby the Government agrees to transfer funds to the designated account in case the beneficiary entity fails to ensure availability of adequate funds for servicing the debts, as per stipulations.

7. *Guarantee includes letter of comfort which is in the nature of implicit Guarantee.*

8. Implicit Guarantees are generally not legally binding. A Government often issues letters of comfort, e.g., to banks and financing institutions, *inter alia* assuring that their stake will not be divested till the loans are repaid. The provisions of the Indian Contract Act and Article 299 (1) of the Constitution dealing with contractual obligation indicate that a letter of comfort may not constitute a Guarantee. Nature of wordings used in a letter of comfort decides whether the letter of comfort is to be treated as a Guarantee. If the liability in respect of letter of comfort devolves on a Government, then it becomes a Guarantee. In this Standard, the letter of comfort has been treated as an implicit Guarantee.

Disclosure

9. *The Financial Statements of the Union Government and the State Governments shall disclose the following details concerning class/ sector of Guarantees in the format prescribed in paragraph 19:*

- (a) *maximum amount for which Guarantees have been given during the year, additions and deletions (other than invoked during the year) as well as Guarantees outstanding at the beginning and end of the year;*
- (b) *amount of Guarantees invoked and discharged or not discharged during the year;*
- (c) *details of Guarantee commission or fee and its realisation; and*
- (d) *other material details.*

10. *The Financial Statements of the Union Government and the State Governments shall disclose in the notes the following details concerning class/ sector of Guarantees:*

- (a) *limit, if any, fixed within which the Government may give Guarantee;*

- (b) *whether Guarantee Redemption / Reserve Fund exists and its details including disclosure of balance available in the Fund at the beginning of the year, any payments made and balance at the end of the year;*
- (c) *details of subsisting external foreign currency guarantees in terms of Indian rupees on the date of Financial Statements;*
- (d) *details concerning Automatic Debit Mechanism and Structured Payment Arrangement, if any;*
- (e) *whether the budget documents of the Government contain details of Guarantees;*
- (f) *details of the tracking unit or designated authority for Guarantees in the Government; and*
- (g) *other material details.*

11. *The Financial Statements of the Union Government and the State Governments shall disclose the following details concerning class/ sector of letters of comfort in the format prescribed in paragraph 19:*

- (a) *Total amount for which letters of comfort have been issued during the year;*
- (b) *amount of letters of comfort invoked.*

12. The Financial Statements disclose whether details of Guarantees are published in the annual budget presented to the Parliament and State Legislature, as the case may be.

13. In order that a proper database is maintained for all Guarantees, annually sanctioned, annulled and outstanding, a tracking unit for Guarantees is usually designated in the Ministry/ Department of Finance in the respective Governments. The Financial Statements disclose the details concerning the tracking unit for guarantees or any concerned authority in charge of this responsibility.

14. Many Governments have set up either a Guarantee Redemption Fund or a Guarantee Reserve Fund. Some Governments have made arrangement for Automatic Debit Mechanism for discharging the obligations arising out of such Guarantees

executed by the Government. There are also Structured Payment Arrangements. The Financial Statements disclose full details concerning these arrangements.

15. When Guarantees are invoked and payments made, the payment is treated as loan to the beneficiary on whose behalf the Guarantees were given and recoveries there-against are monitored. The expenditure, loan and recoveries are distinctly classified in the Financial Statements. If, in due course, the whole or part of the loan amount is finally held to be irrecoverable, the same is adjusted (i) where a Guarantee Reserve Fund exists, by debit to such Fund and (ii) where the Guarantee Reserve Fund does not exist, by debit to “Irrecoverable loan written off” under the function for which the loan has been guaranteed and where the purpose cannot be identified, by debit to “Miscellaneous General Services.”

16. For the purposes of paragraphs 9 to 11, 19 and 20, the class/ sector under which disclosure in the Financial Statements of the Union Government and the State Governments shall be made are as below:

Class

- i. Guarantees given to the Reserve Bank of India, other banks and financial institutions for repayment of principal and payment of interest, cash credit facility, financing seasonal agricultural operations and for providing working capital to companies, corporations and cooperative societies and banks;***
- ii. Guarantees given for repayment of share capital, payment of minimum annual dividend and repayment of bonds/ loans, debentures issued / raised by the statutory corporations and financial institutions;***
- iii. Guarantees given in pursuance of agreements entered into by the Government of India with international financial institutions, foreign lending agencies, foreign governments, foreign contractors, foreign suppliers and foreign consultants towards repayment of principal, payment of interest/ commitment charges on loans and for payment against supplies of material and equipment or for services rendered;***
- iv. Counter-guarantees to banks in consideration of the banks having issued letters of credit to foreign suppliers for supplies made/ services rendered;***
- v. Guarantees given to Railways/State Electricity Boards and other entities for due and punctual payment of dues by companies/ corporations;***

- vi. *Performance guarantees given for fulfilment of contracts/projects awarded to Indian companies/ corporations in foreign countries;*
- vii. *Performance guarantees given for fulfilment of contracts/projects awarded to foreign companies/ corporations in foreign countries;*
- viii. *Any other.*

Sector

- i. *Power;*
- ii. *Co-operative;*
- iii. *Irrigation;*
- iv. *Roads & Transport;*
- v. *State Financial Corporations;*
- vi. *Urban Development & Housing;*
- vii. *Other Infrastructure;*
- viii. *Any other.*

Effective date

17. *This Indian Government Accounting Standard becomes effective for Financial Statements covering periods beginning on or after 1.4.2004 for class-wise disclosures in the Financial Statements of the Union Government and sector-wise disclosures in the Financial Statements of the State Governments.*

18. Sector-wise disclosures for each class, as per the format prescribed in paragraph 20 are encouraged to be made in the Financial Statements of the Union Government as well as the State Governments.

Sector (No. of Guarantees within bracket)	Maximum amount guaranteed during the year (Rs.)	Outstanding at the beginning of the year (Rs.)	Additions during the year (Rs.)	Deletions (other than invoked) during the year (Rs.)
1	2	3	4	5

Invoked during the year (Rs.)		Outstanding at the end of the year (Rs.)	Guarantee Commission or fee (Rs.)		Other material details
Discharged	Not discharged		Receivable	Received	
6	7	8	9	10	11

Formats for disclosure

19. Formats for class-wise and sector-wise disclosures in the Financial Statements of the Union Government and the State Governments respectively are given below:

Class-wise details: For Guarantees

Class (No. of Guarantees within bracket)	Maximum amount guaranteed during the year (Rs.)	Outstanding at the beginning of the year (Rs.)	Additions during the year (Rs.)	Deletions (other than invoked) during the year (Rs.)
Class	No. of letters of comfort	Total amount for which letters of comfort issued (Rs.)	Details of invocation, if any	Remarks, if any
1	2	3	4	5
1	2	3	4	5

Invoked during the year (Rs.)		Outstanding at the end of the year (Rs.)	Guarantee Commission or fee (Rs.)		Other material details
Discharged	Not discharged		Receivable	Received	
6	7	8	9	10	11

Class-wise details: For letters of comfort

Sector-wise details: For Guarantees

Sector-wise details: For letters of comfort

Sector	No. of letters of comfort	Total amount for which letter of comfort issued (Rs.)	Details of invocation, if any	Remarks, if any
1	2	3	4	5

20. Formats for sector-wise disclosures for each class in the Financial Statements of the Union Government and the State Governments are given below:

Sector-wise details for each class: For Guarantees

Class and Sector (No. of Guarantees within bracket)	Maximum amount guaranteed during the year (Rs.)	Outstanding at the beginning of the year (Rs.)	Additions during the year (Rs.)	Deletions (other than invoked) during the year (Rs.)
1	2	3	4	5

Invoked during the year (Rs.)		Outstanding at the end of the year (Rs.)	Guarantee Commission or fee (Rs.)		Other material details
Discharged	Not discharged		Receivable	Received	
6	7	8	9	10	11

Sector-wise details for each class: For letters of comfort

Class and Sector	No. of letters of comfort	Total amount for which letters of comfort issued (Rs.)	Details of invocation, if any	Remarks, if any
1	2	3	4	5