

MINISTRY OF FINANCE
(Department of Economic Affairs)
(BUDGET DIVISION)
NOTIFICATION

New Delhi, the 20th December, 2010

S.O. 2979(E).—In exercise of the powers conferred by article 150 of the Constitution, the President of India, on the advice of the Comptroller and Auditor General of India, hereby makes the following accounting standard namely:— Indian Government Accounting Standards, Guarantees given by Governments: Disclosure Requirements relating to the form of accounts of the Union, States and Union Territory Governments (with legislature).

2. The Indian Government Accounting Standards specifies the disclosure requirements in the Financial Statements of the Union and the State Governments of Guarantees given by Governments, namely:—

Guarantees given by Governments:
Disclosure Requirements

Introduction.—

A. (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. 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 the State Governments, Union territories, local bodies, railways, government companies or 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 or 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 or services rendered by them on credit basis in favour of companies or 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 and Union Territory Governments (with legislature).

(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.

B. Objective.—

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

C. Scope.—

- (1) 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.
- (2) 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.

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D. Definitions.—

In this Standard, unless the context otherwise requires, -

- (a) **Accounting Authority.**—means the Authority which prepares the Financial Statements of the Government;
- (b) **Authority in the Government.**—means the tracking (monitoring) unit or Authority for Guarantees and in its absence, the Ministry or the Department of Finance, as the case may be;
- (c) **Automatic Debit Mechanism.**—means 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;
- (d) **Financial Statements.**—mean the Annual Finance Accounts of the Governments;
- (e) **Guarantee.**—means 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
- (f) **Structured Payment Arrangement.**—means 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.

E. Disclosure.—

- (1) The Financial Statements of the Union Government, the State Governments and the Union Territory Governments (with legislature) shall disclose the following details concerning class or sector of Guarantees in the format specified in paragraph M:
 - (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.
- (2) The Financial Statements of the Union Government, the State Governments and the Governments of Union Territories (with legislature) shall disclose in the notes the following details concerning class or sector of Guarantees:
 - (a) limit, if any, fixed within which the Government may give Guarantee;
 - (b) whether Guarantee Redemption or 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.

F. 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.

G. 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 or 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.

H. 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.

L. 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 (a) where a Guarantee Reserve Fund exists, by debit to such Fund and (b) 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".

J. For the purposes of paragraphs E and M the class or sector under which disclosure in the Financial Statements of the Union Government, the State Governments and Union Territory Governments (with legislature) 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 or loans, debentures issued or 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 or 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 or services rendered;
- (v) Guarantees given to Railways/State Electricity Boards and other entities for due and punctual payment of dues by companies or corporations;
- (vi) Performance guarantees given for fulfilment of contracts or projects awarded to Indian companies or corporations in foreign countries;
- (vii) Performance guarantees given for fulfilment of contracts or projects awarded to foreign companies or corporations in foreign countries;
- (viii) Any other.

Sector

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

Effective date.—

K. This Indian Government Accounting Standard becomes effective for Financial Statements covering periods beginning on or after 1-4-2010 for class-wise disclosures in the Financial Statements of the Union Government and sector-wise disclosures in the Financial Statements of the State Governments and Union Territory Governments (with legislature).

L. Sector-wise disclosures for each class, as per the format specified in paragraph M are encouraged to be made in the Financial Statements of the Union Government as well as the State Governments or Union Territory Governments with legislature.

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

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

Class-wise details : For Guarantees

Class (No. of Guarantees within brackets)	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 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

By Order of the President of India
SHAKTIKANTA DAS, Jt. Secy.