



The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises and Autonomous Bodies

Scheme on Strengthening of State-Owned Enterprises' Governance

Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS)

Monitoring Cell
Finance Division, Ministry of Finance

Government of the People's Republic of Bangladesh
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Government of the People's Republic of Bangladesh



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**Monitoring Cell
Finance Division, Ministry of Finance**

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Acronyms and Expansions

Acronym	Expansion
ABs	Autonomous Bodies
AIT	Advance Income Tax
BDT	Bangladeshi Taka
CAFO	Chief Accounts and Finance Officer
CCLM	Cash and Contingent Liability Management
COGS	Cost of Goods Sold
CSR	Corporate Social Responsibility
DCA	Development Credit Agreement
DSL	Debt Service Liability
ERD	Economic Relations Division
FD	Finance Division
FY	Financial Year
GO	Government Order
GoB	Government of Bangladesh
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LA	Loan Agreement
MC	Monitoring Cell
PSOs	Public Service Obligations
SD	Supplementary Duty
SLA	Subsidiary Loan Agreement
SOEs	State-Owned Enterprises
SPFMS	Strengthening Public Financial Management Program to Enable Service Delivery
TDMW	Treasury and Debt Management Wing
TDS	Tax Deduction at Source
VAT	Value Added Tax
VDS	VAT Deduction at Source
WPPF	Workers' Profit Participation Fund

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নং ০৭.০১.০০০০.০০০.১৪.০০৯.২১-১৪৮

তারিখ: ৩০ ডিসেম্বর ২০২১ খ্রি:
১৫ পৌষ ১৪২৮ বঙ্গাব্দ

বিষয়ঃ রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের জন্য প্রণীত “The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs)” জারিকরণ।

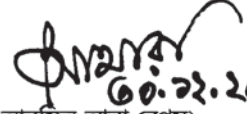
উপর্যুক্ত বিষয়ে জানানো যাচ্ছে যে, আর্থিক সংস্কার কার্যক্রমের আওতায় ২০১৮-২০২৩ মেয়াদে “Public Financial Management (PFM) Action Plan” বাস্তবায়নের লক্ষ্যে অর্থ বিভাগ হতে “Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS)” কর্মসূচি গ্রহণ করা হয়েছে। উক্ত SPFMS কর্মসূচির আওতায় “Strengthening of State Owned Enterprises’ Governance” স্কিম এর অধীনে “The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs)” প্রণয়ন করা হয়েছে।

২। “The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs)” এর মূল লক্ষ্য হলো রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের দায় ও প্রচ্ছন্ন দায় পরিবীক্ষণ এবং তা বিশ্লেষণের মাধ্যমে এ সংক্রান্ত প্রতিবেদন প্রণয়ন। এ Procedure -এর অন্তর্গত সংশ্লিষ্ট ফরমের মাধ্যমে রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের দায়, প্রচ্ছন্ন দায় এবং অন্যান্য আর্থিক ও অ-আর্থিক কর্মকাণ্ডের তথ্য ও উপাত্ত সংরক্ষণের ব্যবস্থা নেওয়া হয়েছে। উক্ত তথ্য, উপাত্ত বিশ্লেষণপূর্বক রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের দায় পরিশোধের সক্ষমতা মূল্যায়ন সহজ হবে। Procedureটি বাস্তবায়িত হলে সরকারের আর্থিক ব্যবস্থাপনা উন্নয়ন, আর্থিক শৃঙ্খলা নিশ্চিতকরণ এবং রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের সামগ্রিক কর্মকাণ্ডের উন্নয়ন সম্ভব হবে।

৩। অর্থ বিভাগের অনুমোদনক্রমে রাষ্ট্রায়ত্ত্ব ও স্বায়ত্তশাসিত প্রতিষ্ঠানসমূহের দায় ও প্রচ্ছন্ন দায় পরিবীক্ষণের লক্ষ্যে প্রণীত “The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs)” জারি করা হলো।

৪। এ Procedure টি ০১ জানুয়ারি, ২০২২ হতে কার্যকর হবে।

সংযুক্তিঃ Procedure-এর কপি।


৬০.১১.২০২১
(আরিফিন আরা বেগম)
মহাপরিচালক (অতিরিক্ত সচিব)
মনিটরিং সেল, অর্থ বিভাগ।

বিতরণঃ(জ্যেষ্ঠতার ক্রমানুসারে নয়)

- ১। মন্ত্রিপরিষদ সচিব, বাংলাদেশ সচিবালয়, ঢাকা।
- ২। মুখ্য সচিব, প্রধানমন্ত্রীর কার্যালয়, তেজগাঁও, ঢাকা।
- ৩। সিনিয়র সচিব/ সচিব.....
- ৪। চেয়ারম্যান/ মহাপরিচালক/ব্যবস্থাপনা পরিচালক/নির্বাহী পরিচালক.....
- ৫। অতিরিক্ত সচিব (প্রশাসন ও টিডিএম/ বাজেট-ও ব্যয় ব্যবস্থাপনা/ প্রবারা), অর্থ বিভাগ।
- ৬। অতিরিক্ত সচিব/যুগ্মসচিব (রাষ্ট্রায়ত্ত্ব প্রতিষ্ঠান অনুবিভাগ/ ট্রেজারি ও ঋণ ব্যবস্থাপনা অনুবিভাগ/ বাজেট-১,২ অনুবিভাগ/ সামষ্টিক অর্থনীতি অনুবিভাগ/ অর্থনৈতিক উপদেষ্টা অনুবিভাগ), অর্থ বিভাগ।
- ৭। সিনিয়র সচিবের একান্ত সচিব, অর্থ বিভাগ।
- ৮। অফিস কপি।

1. Introduction

- I. Debt and Contingent Liabilities may arise from financing and other activities of an entity. This may happen for State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs). Debt is the amount owed and hence payable by an entity. Contingent liabilities are either possible obligations or present obligations that arise from past events but are not recognized as liabilities because the outflow of resources required to settle the obligations is not probable or the amount of the obligations cannot be measured with sufficient reliability.
- II. SOEs/ABs may incur debt on account of borrowings from government and non-government entities. Contingent liabilities may arise to the SOEs/ABs because of their possible obligations or non-probable or non-measurable present obligations. On the other hand, any borrowing of SOEs/ABs from non-government entities that requires Sovereign Guarantee/Counter Guarantee results in contingent liability to the government. Such contingent liability may become a liability to the government if the SOEs/ABs fails to repay the debt for which the government has provided the Sovereign Guarantee. Contingent liabilities of SOEs/ABs, in turn, become their liabilities under certain circumstances such as if any possible obligation is confirmed upon the verdict of the court, or upon the settlement of the disputes etc. The debt and contingent liabilities of SOEs/ABs may become a fiscal burden to the government - the ultimate owner of the SOEs/ABs, if they fail to manage their debt and contingent liabilities properly.
- III. In Bangladesh, at present, Debt Service Liability (DSL) Branch and Cash and Contingent Liability Management (CCLM) Branch are working under the Treasury and Debt Management Wing (TDMW) of Finance Division (FD), Ministry of Finance. These branches are maintaining respectively the data relating to debt of SOEs/ABs on account of borrowings from government and the information of Sovereign Guarantee provided by the government against the borrowings of SOEs/ABs from non-government entities. Thus, there is no systematic regulatory framework currently in place to capture comprehensive data relating to the borrowings of the SOEs/ABs from non-government entities and the information of contingent liabilities of SOEs/ABs.
- IV. On this backdrop, this Procedure aims to provide a framework for the comprehensive, timely and accurate collation of data and consolidation of information on the debt and contingent liabilities of SOEs/ABs. Section 3(2)(b) of “The Public Money and Budget Management Act 2009” stipulates that the Contingent Liabilities of the Government on account of issuing Sovereign Guarantees shall be contained within a sustainable limit. This Procedure will help monitor and thereby will help limit the Contingent Liabilities of the Government. Therefore, the directive of preparing and implementing this Procedure is based on “The Public Money and Budget Management Act 2009”. The Procedure details the contents of the Debt and Contingent Liabilities statement of SOEs/ABs to be presented to the Finance Secretary/Finance Minister. The statement focuses on debt service performance and timely disclosure of debt and contingent liabilities of SOEs/ABs. Furthermore, the Procedure clarifies the roles of various stakeholders - Monitoring Cell, DSL Branch, CCLM Branch, Line Ministries/Divisions,

Chief Accounts and Finance Officer (CAFO), concerned SOEs/ABs - in collating and sharing the individual and aggregate data with regard to debt and contingent liabilities of SOEs/ABs. This Procedure in no way aims to infringe on the financing decision making authority and autonomy of the SOE/AB board. Based on the circumstances, the statements and provisions of this Procedure will be applicable to the SOEs or ABs.

2. Title and Commencement

- I. The title of this Procedure is - The Procedure to Regulate the Debt and Contingent Liabilities of State-Owned Enterprises (SOEs) and Autonomous Bodies (ABs). It is issued with the approval of Senior Secretary, Finance Division on 28 December, 2021.
- II. This Procedure will be effective immediately and be applicable to all SOEs/ABs as per the list of Monitoring Cell (MC), which may be updated time to time.
- III. The directive to formulate this Procedure is embedded in the approved documents of Strengthening Public Financial Management Program to Enable Service Delivery (SPFMS).

3. Definition of Keywords/Terms

- I. **Regulate** means collecting data and consolidating information on debt and contingent liabilities of SOEs/ABs with a view to monitoring and reporting on the position of debt and contingent liabilities as well as the capacity of SOEs/ABs to service their debt and contingent liabilities, and make timely disclosure but by no means aims to infringe on the financing decision making authority and autonomy of SOE/AB board.
- II. **State-Owned Enterprise (SOE)** is an entity established as Statutory Corporation, Company under the Companies Act, Board, Authority, Institution, Enterprise, Unit and created by any other legal form in which Government of Bangladesh has ownership of any degree with the objectives of earning revenue and/or discharging Public Service Obligations.
- III. **Autonomous Body (AB)** is also an SOE which is a wholly owned government body, distinct from public administration, created by law, with objectives of achieving specific policy goals or Public Service Obligations, with no significant income from regular operations; having autonomy and being accountable to the Government of Bangladesh.
- IV. **Debt** means the amounts owed and payable by an SOE/AB to the Government of Bangladesh, creditors, other SOEs/ABs or any other entities.
- V. **Contingent Liabilities** means possible obligations that may occur depending on the outcome of an uncertain future event or present obligations but non-probable or non-measurable with sufficient reliability. It is either possible obligations arising from past events but the existence of the obligations will be confirmed only by the occurrence or non-occurrence of some uncertain future events not wholly within the entity's control or

present obligations that arise from past events but are not recognized as liabilities because the outflow of resources embodying economic benefits required to settle the obligations is not probable or the amount of the obligations cannot be measured with sufficient reliability.

- VI. **Monitoring Cell** means Monitoring Cell of Finance Division, Ministry of Finance.
- VII. **Quasi-Fiscal Activities** means any activities undertaken by SOEs, and sometimes by private sector companies at the direction of the government, where the prices charged are less than usual price or less than the market price.
- VIII. **Financial Health Check** means financial analysis carried out to keep an SOE/AB financially sound.

Apart from the above definitions, all other accounting and financial terms mentioned in this Procedure will have the same meaning as defined in International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and described in the conceptual framework of IAS and IFRS.

4. Objectives

The objectives of this Procedure are:

- I. To monitor the debt and contingent liabilities of SOEs/ABs;
- II. To provide a framework for effective, timely, and comprehensive consolidated reporting and analysis of the debt and contingent liabilities of SOEs/ABs;
- III. To strengthen fiscal discipline for better management of public money and preparedness for any associated fiscal risks.

5. Fiscal Risk

Government relies on SOEs and ABs along with other bodies to perform Public Service Obligations (PSOs). Such reliance may create fiscal risk to the government as for rendering public services, SOEs and ABs may place to the government funding requirements that fall outside the usual budget process. Extra budgetary funding requirement by the SOEs and ABs may arise if they do not perform well and consequently, become debt burdened. Such phenomenon is the source of fiscal risk to the government, particularly if the government does not have accurate information about debt position and debt repayment capacity of the SOEs and ABs.

If required, the government may guarantee/counter guarantee against the borrowings of SOEs and ABs. These guarantees/counter guarantees are contingent liabilities of the government and are a source of fiscal risk. SOEs may put financial burden on the government if they carry out quasi fiscal activities for which Government does not provide required funding. Thus, fiscal risk

may stem from the quasi-fiscal activities carried out by the SOEs. Moreover, all other types of debt and contingent liabilities of SOEs and ABs may give rise to fiscal risk to the government if the contingent liabilities of SOEs and ABs become their liabilities and the SOEs and ABs fail to pay off their debt and other liabilities.

The receipts from and payments to SOEs and ABs impact the fiscal accounts. Therefore, the lower amount of receipts from and higher amount of payments to SOEs and ABs from budgeted amounts may pose fiscal risk to the government. Fiscal risk is essentially the unexpected financial burden i.e., funding requirement on the government in future. SOEs and ABs may put high funding requirement on the government in future if they have high level of debt stock, high contingent liabilities, and low revenue generating capability/potentiality.

Fiscal risks that may arise from the SOEs and ABs may be assessed as follows:

Net contribution of the SOEs and ABs to the budget: This includes indirect taxes, corporate income tax, dividends, subsidies, net equity and debt payments, and calls on government guarantees/counter guarantees. Net contribution measures the SOE's and AB's direct impact on fiscal revenue and spending.

Net debt: This indicates total liabilities minus current assets of the SOEs and ABs. Rising net debt increases the exposure of the government to adverse shocks on the SOE's and AB's balance sheet and operations. It indicates higher fiscal risk as the government will have to provide higher financial support to the SOEs and ABs and the net contribution of SOEs and ABs to the government's budget may reduce in future.

Off-balance-sheet liabilities: An example of Off-balance-sheet liabilities is a guarantee/counter guarantee. Off-balance-sheet liabilities are contingent liabilities. An increase in off-balance-sheet liabilities has impact on the SOE's and AB's net worth similar to an increase in net debt.

Using the data collected on above items, financial health check/analysis may be carried out in terms of profitability, liquidity, and solvency ratios to measure the fiscal risks stemming from SOEs. Benchmarking/thresholds of these ratios may be set against which SOEs and ABs may be ranked from low risk to high risk.

It thus suggests that debt and contingent liabilities of SOEs and ABs are sources of fiscal risks to the government. Therefore, in order to properly manage and strengthen the preparedness for fiscal risk, the debt and contingent liabilities of SOEs and ABs need to be monitored closely.

6. Managing Fiscal Risk

Monitoring and managing the fiscal burden and potential fiscal risk arising from SOEs and ABs is important for achieving financial and fiscal discipline. This can be done by following the principles of competitive neutrality that reduce preferential access of the SOEs and ABs to financing and provide the government a framework for strengthening the financial and fiscal discipline. Preferential access to financing may result in excessive indebtedness and generate severe inefficiencies in the SOEs and ABs. Therefore, in order to manage fiscal risk, along with monitoring the debt and contingent liabilities of SOEs and ABs by maintaining a strong database, preferential access of the SOEs and ABs to financing needs to be curtailed. Also, while searching for sources of financing, SOEs and ABs shall emphasize more on competitiveness selecting the alternative among the competitive sources of financing that will render the highest benefit. To this effect, in order to fulfill the needs of financing, SOEs and ABs shall prioritize the receipt of concessional loan through Economic Relations Division (ERD). In the event of unavailability of concessional loan, SOEs and ABs may resort to commercial loan at a competitive market interest rate and other conditions complying with relevant rules and regulations in force. In this regard, prudence and due diligence need to be pursued; particularly, external situation, debt service capability, and revenue to debt ratio need to be considered.

7. Institutional Arrangement

7.1 Finance Division (FD)

Finance Division (FD) has overall responsibility for financial administration and expenditure management of SOEs/ABs and therefore, has the responsibility to ensure that SOEs/ABs operate efficiently, accountably, and transparently. The responsibility of FD includes maintaining debt sustainability and fiscal health as well as holding the SOEs/ABs accountable for their activities. In respect of this Procedure, the functions of FD will be:

- I. To execute Subsidiary Loan Agreement (SLA)/Loan Agreement (LA), as the case may be, with SOEs/ABs properly;
- II. To ensure that the provisions of Sovereign Guarantee/Counter Guarantee Guideline of FD are duly complied prior to issuing such guarantee;
- III. To maintain the data on the borrowings of SOEs/ABs from government and the record of sovereign guarantee/counter guarantee provided by the government against the borrowings of SOEs/ABs from sources other than the government appropriately and share with Monitoring Cell (MC);
- IV. To approve the statements on debt and contingent liabilities of SOEs/ABs and the report on the position of debt and contingent liabilities and the capacity of SOEs/ABs to service their debt;
- V. To approve the amendments of this Procedure recommended by MC as and when necessary.

7.2 Monitoring Cell (MC)

The Monitoring Cell will be the entity with the authority of implementing this Procedure. The functions of the Monitoring Cell in this regard will be:

- I. To provide advisory and centralized support to SOEs/ABs to ensure their strict compliance with the provisions of this Procedure;
- II. To maintain an updated list of SOEs and ABs;
- III. To establish a web-based system for capturing data on debt and contingent liabilities including other financial and non-financial data of SOEs/ABs;
- IV. To generate a statement on debt and contingent liabilities of SOEs/ABs;
- V. To prepare a report on the position of debt and contingent liabilities and the capacity of SOEs/ABs to service their debt and submit the report to Finance Secretary/Finance Minister for approval;
- VI. To visit SOEs and ABs for monitoring the debt and contingent liabilities, if required;
- VII. To engage consultants (if required) to explore the incorporation of any modification or improvement of the Procedure;
- VIII. To make amendments, as and when necessary, of this Procedure with the approval of FD.

7.3 Line Ministries/Divisions

Line ministries/divisions will carry out the regulatory functions for SOEs/ABs. The portfolio ministries/divisions and in special cases the Cabinet Division and Finance Division, shall have the responsibility for policy direction of SOEs/ABs. The functions of Line Ministries/Divisions regarding this Procedure will be:

- I. To comply with the relevant provisions of Sovereign Guarantee/Counter Guarantee Guideline of FD;
- II. To ensure/monitor that the SOEs/ABs repay the installments of their borrowings as per amortization schedule;
- III. To ensure/monitor that the SOEs/ABs comply the provisions of this Procedure.

7.4 State Owned Enterprises (SOEs)/Autonomous Bodies (ABs)

The role of the SOE/AB Board of Directors is to formulate the strategies and oversee the activities of the entity. The functions of the SOE/AB Board of Directors in relation to this Procedure will be:

- I. To ensure/monitor that the SOE/AB complies the relevant provisions of Sovereign Guarantee/Counter Guarantee Guideline of FD;
- II. To ensure/monitor that the SOE/AB repays the installments of borrowings as per amortization schedule;
- III. To ensure/monitor that the SOE/AB complies the provisions of this Procedure;
- IV. To ensure that the SOE/AB follows International Accounting Standards and International Financial Reporting Standards.

8. Debt Composition of SOEs/ABs

The activities of SOEs/ABs may be debt financed by the government, domestic or international entities. The debt composition of SOEs/ABs may be as follows:

8.1 Borrowing from Government

SOEs/ABs may borrow from the government through (i) Subsidiary Loan Agreement (SLA) or (ii) Loan Agreement (LA).

8.1.1 Subsidiary Loan Agreement (SLA)

When Development Partners agree to finance any SOE/AB, they enter into Development Credit Agreement (DCA) with the Economic Relation Division (ERD), Ministry of Finance. The financing may include any type of credits such as loan, suppliers' credit, buyers' credit etc. Following the DCA, FD executes a Subsidiary Loan Agreement (SLA) with the concerned SOE/AB. Subsequent to the execution of SLA, a Government Order (GO) is issued for the release of funds to the concerned SOE/AB. Based on the SLA and GO, CAFO makes payment to the SOE/AB and, as a consequence, concerned SOE/AB incurs debt to the government.

8.1.2 Loan Agreement (LA)

The GoB may agree to provide a loan to SOEs/ABs from its own resources. FD, Ministry of Finance, enters into a Loan Agreement (LA) with the concerned SOE/AB. Thereafter, a GO for the release of funds is issued and on the basis of the LA and GO, CAFO makes payment to the concerned SOE/AB. Consequently, the SOE/AB recognizes its debt to the government.

8.2 Borrowing from Financial Institutions

As per board decision, SOEs/ABs may borrow from domestic or international financial institutions. Borrowing from state-owned banks or other financial institutions of the country may be categorized as the borrowing from domestic financial institutions. SOEs/ABs incur debt as the loan is disbursed and interest accrues on the loan. The state-owned banks/other financial institutions may require the FD to issue a sovereign guarantee/counter guarantee. For the issuance of such sovereign guarantee/counter guarantee, concerned SOEs/ABs, Line ministries, and FD have to comply with the conditions mentioned in Sovereign Guarantee/Counter Guarantee Guideline of FD, Ministry of Finance. As per this guideline, concerned SOEs/ABs are required to maintain a **Debt Repayment Fund** for the debt against which Government has provided Sovereign Guarantee/Counter Guarantee. Such sovereign guarantees/counter guarantees are essentially the contingent liabilities of Government.

8.3 Deferred Payment Liabilities

Deferred payment liabilities are long term liabilities that arise on account of the purchase of goods and/or services under long term contracts for which the payments are deferred to a longer period in future i.e. at least more than one year. SOEs/ABs will maintain the particulars of deferred payment liabilities, if any, for each contract separately.

8.4 Debt to Related Party

International Accounting Standard 24 (IAS 24) states that an entity is a related party to a reporting entity if it is a parent, subsidiary, fellow subsidiary, associate, or joint venture of the reporting entity, or it is controlled, jointly controlled, or significantly influenced or managed by a related party. IAS 24 requires a reporting entity to disclose all the related party transactions occurred during the reporting period and a related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged or not. Therefore, an SOE's/AB's debt to related party includes outstanding borrowings from related party and interest accrued on the borrowings but not paid, and all other liabilities arisen from the transactions with the related party.

8.5 Other Debts

Other debts of SOEs/ABs may include outstanding borrowings from and interest accrued on the borrowings but not paid and any other liabilities to any SOE/AB (not related party), liabilities to any other entities, any other liabilities other than the outstanding borrowings and interests to the government such as Income Tax payable, Value Added Tax (VAT) payable, Supplementary Duty (SD) payable, Duties and Taxes payable on Import, Income Tax and VAT Deducted at Source but not deposited to the government treasury, dividend payable, and any other payable originated from the ordinary course of business.

9. Contingent Liabilities of SOEs/ABs

For the purpose of this Procedure contingent liabilities of SOEs/ABs focus on the debt that has been explicitly or implicitly guaranteed by an SOE/AB. Debt that the GoB has guaranteed on behalf of the SOEs/ABs are considered to be a contractual obligation that the GoB may have to honor in future if the entity fails to adhere to the repayment schedule or unable to repay the said debt at all and as such contingent liabilities for the GoB. These contingent liabilities of the GoB are monitored and reported by the TDMW. Below are the SOE guarantees that may become contingent liabilities for an SOE.

9.1 Loan Guarantee

The lender of the subsidiary SOE may require guarantee from the parent SOE for the borrowings of its subsidiary. Hence, a loan guarantee is a legally binding commitment given by the parent SOE to pay or fulfill the debt or obligation of its subsidiary in the event that the subsidiary defaults. A loan guarantee is thus a contingent liability of the parent SOE and it will turn into liability of the parent SOE, if the borrower i.e. subsidiary SOE defaults. The original loan terms and amount, payment schedule and current status will be reported by the subsidiary to the parent SOE.

9.2 Letter of Comfort

A letter of comfort is an ethical or moral commitment given by the parent SOE to the lender in order to support the obligations of its subsidiary. Though commitment given in the letter of comfort is not legally binding, it is essentially in the nature of implicit contingent liability.

9.3 Statutory Obligations

SOEs/ABs may have statutory obligations on account of terminal benefits to be paid to the employees for retrenchment or termination of employment or contracts. SOEs/ABs will make an estimation of the contingent liability for the retrenchment or termination of employment or contracts of employees. Statutory obligations also include the payment of fees, penalties, duties, taxes, surcharges, and others that may arise on account of the settlement of disputes in future with the government agencies, such as income tax, VAT, Custom authorities, etc.

9.4 Pending Litigations

Contingent liabilities include the possible obligations that may arise from the verdict of the cases pending before any court of law. SOEs/ABs will follow up the cases, if any, pending before the court and maintain as well as update their contingent liabilities in this regard. The estimates of contingent liabilities for pending litigations are required to be reported in the annual financial statements as per IAS 37.

9.5 Credit Disputes

Disputes relating to purchases of goods/services on credit will be regarded as contingent liabilities since the disputes may result in liabilities if the future event of the settlement of the disputes imposes any obligations. SOEs/ABs will maintain updated data relating to credit disputes.

9.6 Quasi-Fiscal Activities

Contingent liabilities arise to the Government on account of Quasi-Fiscal Activities because the Government has to disburse subsidies to the SOEs for carrying out Quasi-Fiscal Activities. Likewise, a parent SOE shoulders contingent liabilities, if it directs subsidiaries to implement Quasi-Fiscal Activities. Therefore, the parent SOE shall disclose contingent liabilities in the event that the subsidiaries perform Quasi-Fiscal Activities at the behest of their parent.

9.7 Other Contingent Liabilities

SOEs/ABs may have other contingent liabilities apart from the above-mentioned items. For example, contract dispute, liabilities that may arise from act of God such as natural calamities, pandemic etc. SOEs/ABs will maintain as well as update the data relating to all other contingent liabilities, if any.

10. Recognition of Provisions and Disclosure of Contingent Liabilities

As per IAS 37, Provisions shall be recognized and Contingent Liabilities shall be disclosed. IAS 37 requires that items be included among liabilities as provisions if for any present obligation the probability of the event will be occurred is higher than 50 percent and the outflow of resources embodying economic benefit can be reliably measured but disclosed in a note to the financial statements as a contingent liability if for any present obligation the probability of the event will be occurred is less than 50 percent and is not very low or the outflow of resources embodying economic benefit cannot be reliably measured. Also, a contingent liability shall be disclosed in a note to the financial statements if for any possible obligation the probability of the event will be occurred is not very low. The guaranteed amount for loan guarantee and the amount disputed for all other possible obligations shall be disclosed as contingent liabilities in the financial statements.

11. Collection of Data

In order to prepare the statement of debt and contingent liabilities, Monitoring Cell - the implementing authority of this Procedure will collect data mainly from the concerned SOEs/ABs. Currently, under the TDMW of FD, DSL Branch maintains the data on the borrowings of SOEs/ABs from government and CCLM Branch maintains the record of Sovereign Guarantee/Counter Guarantee provided by the government against the borrowings of SOEs/ABs from sources other than the government. DSL Branch collects data from the concerned SOEs/ABs in the prescribed format and validates the data through meetings with the SOEs/ABs, supporting documents from the Budget Wing of FD and statements from the CAFO. DSL Branch will continue to collect and validate the data of the borrowings of SOEs/ABs from government as it is currently doing and will share the data with Monitoring Cell. If the data on DSL collected by MC from any SOE/AB as per Form 1 of this Procedure do not match with that of DSL Branch, MC, DSL Branch, and the concerned SOE/AB will sit together and rectify the discrepancies. CCLM Branch of FD will share with Monitoring Cell the data of Sovereign Guarantee/Counter Guarantee provided by the Government against the borrowings of SOEs/ABs from the sources other than the Government.

11.1 Collection of Data on Debt

Monitoring Cell will collect data on the debt of SOEs/ABs by using the format attached to this Procedure as Form 1. SOEs/ABs will:

- I. Enter data in the format (Form 1) from their audited financial statements or records/books of accounts based on which financial statements will be prepared and presented to the auditors;
- II. Submit, for the purpose of better understanding and clarification of the information provided by the SOEs/ABs, the Treasury Chalcans through which principal and interest of the borrowings from government under SLA and/or LA have been deposited in specific codes;

- III. Submit, for the purpose of better understanding and clarification of the information provided by the SOEs/ABs, GOs relating to the release of funds under SLA and/or LA;
- IV. Submit, for the purpose of better understanding and clarification of the information provided by the SOEs/ABs, the statements of loan in respect of the borrowings from financial institutions;
- V. Submit SOEs'/ABs' Income Statement (Form 3), Statement of Changes in Equity (Form 4), Balance Sheet/Statement of Financial Position (Form 5) and Statement of Cash Flow (Form 6) of the Financial Year;
- VI. Submit Form 1, Amortization Schedules of loans, Templates for the collection of non-financial data (Form 7) and all other forms and documents mentioned above to Monitoring Cell within seven (7) months of the end of the Financial Year.

11.2 Collection of Data on Contingent Liabilities

Monitoring Cell will collect data on the contingent liabilities of SOEs/ABs in the format attached to this procedure as Form 2. SOEs/ABs will:

- I. Ensure that data entered in Form 2 reflect in the audited financial statements or draft financial statements prepared for annual audit;
- II. Submit Form 2 to Monitoring Cell within seven (7) months of the end of the Financial Year.

12. Generating Statement of Debt and Contingent Liabilities

Monitoring Cell will establish a web based automated system that will capture the data as explained in section 11 of this Procedure, generate statement of debt and contingent liabilities for each entity separately (Annexure 1) and consolidate for all the entities as a whole (Annexure 2). However, until the system is established, Monitoring Cell may prepare the statement of debt and contingent liabilities for each entity separately (Annexure 1) and consolidated for all the entities as a whole (Annexure 2) in MS EXCEL based on the data collected as explained in section 11. Monitoring Cell will:

- I. Verify the treasury chalang on-line, if needed;
- II. Verify the data entered in Form 1, wherever applicable, with the submitted bank statements, amortization schedules of loans, and GOs;
- III. Verify that relevant data of Form 1 i.e., opening and ending balances match with that of balance sheet/Statement of financial position (Form 5);
- IV. Verify that total of debt/liabilities as per Form 1 equal the total of debt/liabilities shown in the balance sheet/Statement of financial position (Form 5);
- V. Hold meeting with the concerned SOEs/ABs along with Line Ministries/Divisions/Other Concerned and resolve the issues arisen out of the verifications as mentioned above or any other inconsistencies or discrepancies;
- VI. Complete preparing the statements of debt and contingent liabilities within nine (9) months of the end of the Financial Year.