FINANCIAL INSTRUMENTS FACT SHEET # 3

CONCESSIONARY LOANS RECEIVED	
Definition	A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Concessionary loans are granted by public sector entities to achieve particular policy objectives.
Scope	The loan component of concessionary loans received by an entity is accounted for as a financial liability. The non-exchange component of arrangement, which could be a contribution from owners or non-exchange revenue, is accounted for using the Standard of GRAP on *Revenue from Non-Exchange Transactions (Taxes and Transfers)*(GRAP 23).
Recognition	Recognise loan when entity becomes party to the contractual provisions of the instrument.
Classification	Amortised cost, unless the instrument meets the requirements to be measured at fair value through surplus or deficit.
Initial measurement	Fair value, plus transaction costs if subsequently measured at amortised cost. Fair value = present value of contractual cash flows discounted using a market rate of interest for a similar instrument. Difference between transaction price (loan proceeds) and fair value recognised as a contribution from owners or non-exchange revenue in accordance with GRAP 23.
Subsequent measurement	Most concessionary loans received are likely to be measured at amortised cost. Amortised cost is calculated as: Amount initially recognised (fair value plus transaction costs) minus Principal repayments plus or minus Cumulative amortisation* *by applying the effective interest rate.
Interest expense	Interest expense calculated as gross carrying amount X effective interest rate.
Derecognition	A concessionary loan received is derecognised when the obligation is discharged, cancelled, expires or is waived. When the terms of the loan are revised, e.g. modified or renegotiated, an entity considers whether the existing loan should be derecognised and a new loan recognised. When the terms are revised such that the discounted present value of the cash flows under the new terms (discounted using the original effective interest rate) are more than 10% different from the discounted present value of the remaining cash flows or the original financial liability, the existing loan is derecognised and a new loan recognised.
Presentation and disclosure	An entity considers the presentation and disclosure requirements in GRAP 104 and applies materiality when preparing the financial statements. Specific disclosures are required for concessionary loans received by entities (see paragraph 8.24).